

In the opinion of Bond Counsel, assuming continuous compliance with certain covenants in the Tax Certificate and Compliance Agreement to be executed and delivered by the Issuer on the date of delivery of the Series 2013A Bonds, and subject to the conditions stated herein under "Tax Matters," under existing law, (a) the interest on the Series 2013A Bonds is excludable from gross income for Federal income tax purposes, and (b) the interest on the Series 2013A Bonds is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; provided, however, that such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. As described herein under "Tax Matters," other Federal income tax consequences may arise from ownership of the Series 2013A Bonds. It is also the opinion of Bond Counsel that, under existing law of the State of Maryland, the interest on the Series 2013A Bonds and profit realized from the sale or exchange of the Series 2013A Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Series 2013A Bonds or the interest thereon. See "Tax Matters" herein."

\$ 15,945,000
GENERAL OBLIGATION BONDS, SERIES 2013A
MAYOR AND COUNCIL OF ROCKVILLE, MARYLAND

Dated: March 20, 2013**Principal Due:** June 1, 2015/2034

The \$15,945,000 General Obligation Bonds, Series 2013A (the "Series 2013A Bonds") of the Mayor and Council of Rockville (the "Issuer") are issued pursuant to the authority of Article 23A of the Annotated Code of Maryland, as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, and in accordance with an ordinance enacted by the Issuer on February 4, 2013 authorizing the issuance of the Series 2013A Bonds (the "Ordinance") to finance water and sewer improvements and to pay the costs of issuing the Series 2013A Bonds. The Series 2013A Bonds are general obligations of the Issuer, backed by its full faith, credit and unlimited taxing powers.

The Series 2013A Bonds will be issued as fully registered bonds without coupons and, when issued will be in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Series 2013A Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2013A Bonds purchased. Principal of the Series 2013A Bonds, payable annually on each June 1 and interest on the Series 2013A Bonds, payable on each June 1 and December 1 commencing December 1, 2013, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Series 2013A Bonds as described herein. The Series 2013A Bonds will mature on June 1 in the years and amounts as follows:

MATURITY SCHEDULE

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>774217</u>	<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>774217</u>
2015	\$ 800,000	3.000%	0.400%	6X6	2025	\$ 800,000	3.000%	2.590%	7H0
2016	795,000	3.000%	0.550%	6Y4	2026	800,000	3.000%	2.750%	7J6
2017	800,000	4.000%	0.710%	6Z1	2027	800,000	3.000%	2.850%	7K3
2018	795,000	3.000%	0.980%	7A5	2028	800,000	3.000%	2.930%	7L1
2019	800,000	4.000%	1.210%	7B3	2029	795,000	3.000%	2.990%	7M9
2020	800,000	4.000%	1.460%	7C1	2030	795,000	3.000%	3.040%	7N7
2021	800,000	4.000%	1.670%	7D9	2031	795,000	3.000%	3.080%	7P2
2022	800,000	4.000%	1.850%	7E7	2032	790,000	3.150%	3.140%	7Q0
2023	800,000	3.000%	2.180%	7F4	2033	790,000	3.200%	3.190%	7R8
2024	800,000	3.000%	2.390%	7G2	2034	790,000	3.000%	3.180%	7S6

The Series 2013A Bonds maturing in the years June 1, 2023 and thereafter are subject to prior redemption on June 1, 2022 at a price of par plus accrued interest to the date of redemption.

NOT BANK QUALIFIED: The Series 2013A Bonds will not be designated as "Qualified Tax-Exempt Obligations."

LEGAL OPINION: Venable LLP, Baltimore, Maryland

William Blair & Company LLC has agreed to purchase the \$15,945,000 General Obligation Bonds, Series 2013A, from the Mayor and Council, City of Rockville, Maryland, for an aggregate price of \$16,878,483.05. Delivery of the Series 2013A Bonds is currently anticipated to be on or about March 20, 2013.

The date of this Official Statement is February 28, 2013.

(THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.)

William Blair & Company LLC

In the opinion of Bond Counsel, assuming continuous compliance with certain covenants in the Tax Certificate and Compliance Agreement to be executed and delivered by the Issuer on the date of delivery of the Series 2013B Bonds, and subject to the conditions stated herein under "Tax Matters," under existing law, (a) the interest on the Series 2013B Bonds is excludable from gross income for Federal income tax purposes, and (b) the interest on the Series 2013B Bonds is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals corporations; provided, however, that such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. As described herein under "Tax Matters," other Federal income tax consequences may arise from ownership of the Series 2013B Bonds. It is also the opinion of Bond Counsel that, under existing law of the State of Maryland, the interest on the Series 2013B Bonds and profit realized from the sale or exchange of the Series 2013B Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Series 2013B Bonds or the interest thereon. See "Tax Matters" herein."

\$ 6,030,000

**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2013B
MAYOR AND COUNCIL OF ROCKVILLE, MARYLAND**

Dated: March 20, 2013**Principal Due:** March 15, 2014/2023

The \$6,030,000 General Obligation Refunding Bonds, Series 2013B (the "Series 2013B Bonds") of the Mayor and Council of Rockville (the "Issuer") are issued pursuant to the authority of Article 23A, and Section 24 of Article 31 of the Annotated Code of Maryland, as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, and in accordance with an ordinance enacted by the Issuer on February 4, 2013 authorizing the issuance of the Series 2013B Bonds (the "Ordinance") for the purpose of current refunding the 2014 through 2023 maturities of the Issuer's outstanding \$13,395,000 General Obligation Bonds of 2003, Series A, dated June 1, 2003, and to pay the costs of issuance of the Series 2013B Bonds. The Series 2013B Bonds are general obligations of the Issuer, backed by its full faith, credit and unlimited taxing powers.

The Series 2013B Bonds will be issued as fully registered bonds without coupons and, when issued will be in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Series 2013B Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2013B Bonds purchased. Principal of the Series 2013B Bonds, payable annually on each March 15 and interest on the Series 2013B Bonds, payable on each March 15 and September 15 commencing September 15, 2013, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Series 2013B Bonds as described herein. The Series 2013B Bonds will mature on March 15 in the years and amounts as follows:

MATURITY SCHEDULE

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>774217</u>
2014	\$ 625,000	2.000%	0.200%	7T4
2015	615,000	3.000%	0.300%	7U1
2016	610,000	3.000%	0.450%	7V9
2017	605,000	3.000%	0.600%	7W7
2018	605,000	3.000%	0.840%	7X5
2019	595,000	4.000%	1.050%	7Y3
2020	595,000	4.000%	1.300%	7Z0
2021	595,000	4.000%	1.550%	8A4
2022	595,000	4.000%	1.750%	8B2
2023	590,000	4.000%	1.950%	8C0

The Series 2013B Bonds are not subject to redemption prior to their stated maturity date.

NOT BANK QUALIFIED: The Series 2013B Bonds will not be designated as "Qualified Tax-Exempt Obligations."

LEGAL OPINION: Venable LLP, Baltimore, Maryland

An account group managed by **Citigroup** has agreed to purchase the \$6,030,000 General Obligation Refunding Bonds, Series 2013B, from the Mayor and Council, City of Rockville, Maryland, for an aggregate price of \$6,749,904.85. Delivery of the Series 2013B Bonds is currently anticipated to be on or about March 20, 2013.

The date of this Official Statement is February 28, 2013.

(THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.)

Citigroup

No dealer, broker, salesman or other person has been authorized by the Issuer or the Financial Advisor to give any information or to make any representations, other than those contained in this Official Statement or the Final Official Statement and, if given or made, such other information and representations must not be relied upon as having been authorized by the Issuer or the Financial Advisor. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Obligations by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Issuer and other sources which are believed to be reliable, but it is not to be construed as a representation by the Financial Advisor. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement or the Final Official Statement nor any sale made thereafter shall, under any circumstances create any implication that there has been no change in the affairs of the Issuer or in any other information contained herein, since the date thereof.

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INTRODUCTION TO THE OFFICIAL STATEMENT

Series 2013A Bonds

The following information is furnished solely to provide limited introductory information regarding the \$15,945,000 General Obligation Bonds, Series 2013A (the "Series 2013A Bonds") of the Mayor and Council of Rockville, Maryland (the "Issuer") and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

Issuer:	Mayor and Council of Rockville, Maryland						
Purpose:	The proceeds of the Series 2013A Bonds will be used to finance water and sewer improvements, and to pay the costs of issuing the Series 2013A Bonds.						
Security:	The Series 2013A Bonds are general obligations of the Issuer, and taxable property in the territory of the City of Rockville is subject to ad valorem taxes without limitation as to rate or amount to pay the Series 2013A Bonds.						
Authority for Issuance:	The Series 2013A Bonds are issued pursuant to ordinances of the Issuer and pursuant to and in full compliance with the Constitution and laws of the State of Maryland.						
Principal Payments:	Payable on June 1 of the years 2015 through 2034.						
Interest Payments:	Payable on June 1 and December 1, commencing December 1, 2013.						
Optional Redemption:	The Series 2013A Bonds maturing in the years June 1, 2023 and thereafter are subject to prior redemption on June 1, 2022 at a price of par plus accrued interest to the date of redemption.						
Tax Status:	Generally exempt from federal and Maryland state income taxes (see "Tax Matters" herein). The Series 2013A Bonds will <u>not</u> be designated as "Qualified Tax-Exempt Obligations."						
Book-Entry System:	The Series 2013A Bonds will be issued as book-entry only securities through The Depository Trust Company.						
Professional Consultants:	<table><tr><td><i>Financial Advisor:</i></td><td>Public Financial Management, Inc. Minneapolis, Minnesota</td></tr><tr><td><i>Bond Counsel:</i></td><td>Venable LLP Baltimore, Maryland</td></tr><tr><td><i>Registrar/Paying Agent:</i></td><td>Chief Financial Officer City of Rockville, Maryland</td></tr></table>	<i>Financial Advisor:</i>	Public Financial Management, Inc. Minneapolis, Minnesota	<i>Bond Counsel:</i>	Venable LLP Baltimore, Maryland	<i>Registrar/Paying Agent:</i>	Chief Financial Officer City of Rockville, Maryland
<i>Financial Advisor:</i>	Public Financial Management, Inc. Minneapolis, Minnesota						
<i>Bond Counsel:</i>	Venable LLP Baltimore, Maryland						
<i>Registrar/Paying Agent:</i>	Chief Financial Officer City of Rockville, Maryland						

Questions regarding the Series 2013A Bonds or the Official Statement can be directed to and additional copies of the Official Statement, the Issuer's audited financial reports and the Ordinance may be obtained from Public Financial Management, Inc., 800 Nicollet Mall, Suite 2710, Minneapolis, Minnesota 55402 (612/338-3535 612/338-7264 FAX), the Issuer's Financial Advisor, or inquiries may be directed to Mr. Gavin Cohen, Chief Financial Officer, City of Rockville, 111 Maryland Avenue, Rockville, Maryland 20850, or by telephoning (240) 314-8402.

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Series 2013B Bonds

The following information is furnished solely to provide limited introductory information regarding the \$6,030,000 General Obligation Refunding Bonds, Series 2013B (the "Series 2013B Bonds") of the Mayor and Council of Rockville, Maryland (the "Issuer") and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

Issuer:	Mayor and Council of Rockville, Maryland						
Purpose:	The proceeds of the Series 2013B Bonds will be used for the purpose of a current refunding the 2014 through 2023 maturities of the Issuer's outstanding \$13,395,000 General Obligation Bonds of 2003, Series A, dated June 1, 2003, and to pay the costs of issuance of the Series 2013B Bonds.						
Security:	The Series 2013B Bonds are general obligations of the Issuer, and taxable property in the territory of the City of Rockville is subject to ad valorem taxes without limitation as to rate or amount to pay the Series 2013B Bonds.						
Authority for Issuance:	The Series 2013B Bonds are issued pursuant to ordinances of the Issuer and pursuant to and in full compliance with the Constitution and laws of the State of Maryland.						
Principal Payments:	Payable on March 15 of the years 2014 through 2023.						
Interest Payments:	Payable on March 15 and September 15, commencing September 15, 2013.						
Optional Redemption:	The Series 2013B Bonds are not subject to redemption prior to their stated maturity date.						
Tax Status:	Generally exempt from federal and Maryland state income taxes (see "Tax Matters" herein). The Series 2013B Bonds will <u>not</u> be designated as "Qualified Tax-Exempt Obligations."						
Book-Entry System:	The Series 2013B Bonds will be issued as book-entry only securities through The Depository Trust Company.						
Professional Consultants:	<table><tr><td><i>Financial Advisor:</i></td><td>Public Financial Management, Inc. Minneapolis, Minnesota</td></tr><tr><td><i>Bond Counsel:</i></td><td>Venable LLP Baltimore, Maryland</td></tr><tr><td><i>Registrar/Paying Agent:</i></td><td>Chief Financial Officer City of Rockville, Maryland</td></tr></table>	<i>Financial Advisor:</i>	Public Financial Management, Inc. Minneapolis, Minnesota	<i>Bond Counsel:</i>	Venable LLP Baltimore, Maryland	<i>Registrar/Paying Agent:</i>	Chief Financial Officer City of Rockville, Maryland
<i>Financial Advisor:</i>	Public Financial Management, Inc. Minneapolis, Minnesota						
<i>Bond Counsel:</i>	Venable LLP Baltimore, Maryland						
<i>Registrar/Paying Agent:</i>	Chief Financial Officer City of Rockville, Maryland						

Questions regarding the Series 2013B Bonds or the Official Statement can be directed to and additional copies of the Official Statement, the Issuer's audited financial reports and the Ordinance may be obtained from Public Financial Management, Inc., 800 Nicollet Mall, Suite 2710, Minneapolis, Minnesota 55402 (612/338-3535 612/338-7264 FAX), the Issuer's Financial Advisor, or inquiries may be directed to Mr. Gavin Cohen, Chief Financial Officer, City of Rockville, 111 Maryland Avenue, Rockville, Maryland 20850, or by telephoning (240) 314-8402.

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DESCRIPTION OF THE SERIES 2013A BONDS

Authorization and Purpose

The Series 2013A Bonds are issued under and in full compliance with the Constitution and laws of the State of Maryland, including Article 23A of the Annotated Code of Maryland, as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, and in accordance with an ordinance enacted by the Issuer on February 4, 2013, authorizing the issuance of the Series 2013A Bonds.

The Series 2013A Bonds are issued to provide funds (i) to finance all or a portion of the costs of or related to: (A) Water System Facility Improvements and Water Main Rehabilitation, (B) Blue Plains Wastewater Treatment, and modification to three dry ponds, and (ii) to pay the costs of issuing the Series 2013A Bonds.

Sources and Uses of Funds

Table 1 below presents the estimated sources and uses of funds for the Series 2013A Bonds.

Table 1
Estimated Sources and Uses of Funds

Sources:	
Par Amount of Bonds	\$ 15,945,000
Premium	<u>973,346</u>
Total Sources of Funds	<u>\$ 16,918,346</u>
Uses:	
Water System Facility and Water Main Rehabilitation	\$ 5,131,843
Blue Plains Wastewater Treatment	11,656,000
Costs of Issuance/ Underwriter's Discount/Contingency	<u>130,503</u>
Total Uses of Funds	<u>\$ 16,918,346</u>

Interest Computation

Interest on the Obligations will be payable on June 1 and December 1 of each year commencing December 1, 2013. It will be computed on a 360-day year, 30-day month basis and paid to the owners of record as of the close of business on the fifteenth day of the immediately preceding month. Payments coming due on a non-business day will be paid the following business day.

Optional Redemption

At the option of the Issuer, Series 2013A Bonds or portions thereof maturing on June 1, 2023, and thereafter may be called for redemption and payment prior to the stated maturity thereof on June 1, 2022, and at any time thereafter in whole or in part in such amounts for such stated maturities as shall be determined by the Issuer at the redemption price of 100% of the principal amount thereof plus accrued interest thereon to the redemption date. The Series 2013A Bonds may be called in part in one or more units of \$5,000.

If fewer than all of the Series 2013A Bonds shall be called for redemption, the portions of Bonds to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Series 2013A Bonds are held in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if DTC

operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Series 2013A Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

If less than the entire principal amount of any Series 2013A Bonds in a denomination of more than \$5,000 is to be redeemed, the Bond Registrar will issue and deliver to the registered owner thereof, upon surrender of such original Bond, a new Bond or Bonds, in any authorized denomination, in a total aggregate principal amount equal to the unredeemed balance of the original Series 2013A Bonds. Notice of such redemption as aforesaid identifying the Series 2013A Bonds or Bond (or portion thereof) to be redeemed shall be mailed first class to the registered owners thereof at the addresses shown on the Issuer's registration books not less than 30 days prior to such redemption date. All Series 2013A Bonds for which the Issuer exercises the right of redemption and for which proper notice has been given and adequate funds provided, shall cease to bear interest on the redemption date.

DESCRIPTION OF THE SERIES 2013B BONDS

Authorization

The Series 2013B Bonds are issued under and in full compliance with the Constitution and laws of the State of Maryland, including Article 23A, and Section 24 of Article 31 of the Annotated Code of Maryland, as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, and in accordance with an ordinance enacted by the Issuer on February 4, 2013 authorizing the issuance of the Series 2013B Bonds.

The proceeds of the 2013B Bonds will be used to current refund the City's outstanding \$13,395,000 General Obligation Bonds of 2003, Series A, dated June 1, 2003, (the "2013B Refunded Bonds"), and to pay costs associated with the issuance of the 2013B Bonds.

Plan of Refunding

The proceeds of the 2013B Bonds will be used to refund, on a current refunding basis, the 2013B Refunded Bonds as specified in Table 2 below, which lists the outstanding maturities and amounts of the 2013B Refunded Bonds indicating the maturities and amounts to be refunded. The City will upon closing will pay and redeem the outstanding principal of the 2013B Refunded Bonds on the call date of March 28, 2013.

Table 2
Plan of Refunding of the Series 2013B Bonds

<u>Series</u>	<u>Outstanding Maturities</u>	<u>Amount Outstanding</u>	<u>CUSIP</u>	<u>Call Date</u>	<u>Call Price</u>	<u>Par Amount of Series 2013B Refunded Bonds to be Refunded</u>
2003A	2014	\$ 670,000	774217 K44	03/28/2013	100%	\$ 670,000
	2015	670,000	774217 K51	03/28/2013	100%	670,000
	2016	670,000	774217 K69	03/28/2013	100%	670,000
	2017	670,000	774217 K77	03/28/2013	100%	670,000
	2018	670,000	774217 K85	03/28/2013	100%	670,000
	2019	670,000	774217 K93	03/28/2013	100%	670,000
	2020	670,000	774217 L27	03/28/2013	100%	670,000
	2021	670,000	774217 L35	03/28/2013	100%	670,000
	2022	670,000	774217 L43	03/28/2013	100%	670,000
	2023	<u>665,000</u>	774217 L50	03/28/2013	100%	<u>665,000</u>
Total		<u>\$ 6,695,000</u>				<u>\$ 6,695,000</u>

Sources and Uses of Funds

An estimated sources and uses of funds for the Series 2013B Bonds is listed in Table 3 below.

Table 3
Estimated Sources and Uses of Funds

Sources:	
Par Amount of Bonds	\$ 6,030,000
Premium	<u>748,547</u>
Total Sources of Funds	<u>\$ 6,778,547</u>
Uses:	
Current Refunding Escrow Fund	\$ 6,703,461
Costs of Issuance/ Underwriter's Discount/Contingency	<u>75,086</u>
Total Uses of Funds	<u>\$ 6,778,547</u>

Interest Computation

Interest on the Obligations will be payable on March 15 and September 15 of each year commencing September 15, 2013. It will be computed on a 360-day year, 30-day month basis and paid to the owners of record as of the close of business on the fifteenth day of the immediately preceding month. Payments coming due on a non-business day will be paid the following business day.

Optional Redemption

The Series 2013B Bonds are not subject to redemption prior to their stated maturity date.

DESCRIPTION OF THE OBLIGATIONS

Security

The Obligations and interest thereon will constitute general obligations of the Issuer payable as to both principal and interest from ad valorem taxes which may be levied without limitation as to rate or amount upon all the taxable tangible property, real and personal, within the territorial limits of the City of Rockville (the "City").

Book-Entry Only System

The information contained in the following paragraphs of this subsection "Book-Entry Only System" has been extracted from a schedule prepared by Depository Trust Company ("DTC") entitled "SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE." The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (the "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co., nor any other DTC nominee, will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date. The Omnibus Proxy assigns Cede &

Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the Record Date identified in a listing attached to the Omnibus Proxy.

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to Tender/Remarketing Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to Tender/Remarketing Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to Tender/Remarketing Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Continuing Disclosure

In order to permit bidders for the Obligations and other participating underwriters in the primary offering of the Obligations to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"), the Issuer will adopt, for the benefit of the registered holders or beneficial owners of the Obligations, an undertaking to provide annual reports of specified information and notice of the occurrence of certain events, if material. The information to be provided on an annual basis, the events as to which notice is to be given, if material, and a summary of other provisions of the undertaking, including termination, amendment and remedies, are set forth in Appendix D to this Official Statement.

Breach of the undertaking will not constitute a default or an event of default under the Obligations or under the ordinances adopted by the Issuer authorizing any series of the Obligations.

For the disclosure years 2007, 2008 and 2009, financial information was mailed to the repositories prior to the March 31 deadline as required in the continuing disclosure agreement for the City; however, it was not received and posted until after the March 31 deadline. The City has since put procedures in place such that it has met all other 15c2-12 obligations.

THE CITY OF ROCKVILLE

General Information

The following information is provided for the purpose of presenting certain information relating to the City of Rockville (the “City”), Maryland (the “State”). Except as otherwise stated, the information is provided as of June 30, 2012.

Rockville, the County seat of Montgomery County, occupies 13.50 square miles within the Metropolitan Washington Area and is located 12 miles northwest of Washington, D.C. The City lies within four miles of I-495, the Capital Beltway, and is traversed by I-270. The topography is rolling with small hills. Average altitude of the area is 400 feet above sea level.

Rockville was first settled in the late 1700s, chosen as the County seat in 1776, and officially designated as Rockville by the Maryland General Assembly in 1801. The name was derived from Rock Creek, which runs past the eastern boundary of the city. Rockville was incorporated in 1860. The Confederate Monument in Rockville commemorates the days when General Jubal Early's forces passed through Rockville to and from an attack on Washington D.C.

Rockville is both a residential community and an employment and economic center. Rockville experienced its greatest growth after World War II. The population grew from 2,047 to 6,934 between 1940 and 1950 and to 26,090 by 1960. During the 1960s Rockville shared in the rapid population growth experienced in the entire Washington, D.C. Metropolitan Statistical Area (MSA). In 1970 Rockville's population was 42,079, an increase of 61.3 percent over 1960. Population growth moderated during the 1970s. The City's population again had significant growth of 29.2 percent between the 2000 Census population at 47,388 to the 2010 Census with its population at 61,209.

Rockville has been designated an “All-America City” four times.

Government and Organization of the City

The City of Rockville derives its governing authority from a charter granted by the General Assembly of Maryland. The City has operated under the Council-Manager form of government since 1948. The governing body of the City is the Mayor and Council, which formulates policies for the administration of the City. The Mayor and Council are comprised of the Mayor and four council members each elected at large for two year concurrent terms. Mayor and Council members and their terms of office are:

Mayor and Council Members

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Phyllis Marcuccio	Mayor	November 2013
John F. Hall, Jr.	Council Member	November 2013
Tom Moore	Council Member	November 2013
Mark Pierzchala	Council Member	November 2013
Bridget Donnell Newton	Council Member	November 2013

The City Manager is appointed by the Mayor and Council to serve as the City's Chief Executive Officer. She is responsible to the Mayor and Council for the proper administration of all affairs of the City. To this end, she has appointive and removal authority over department heads and all other employees, except the City Clerk and the City Attorney, is responsible for the preparation and administration of the annual budget, for keeping the Mayor and Council apprised of the financial condition and future needs of the City by way of an annual report to the Mayor and Council, recommending and enforcing all policies and procedures laws and ordinances as established by the Mayor and Council, consolidating or reorganizing positions, departments or divisions as needed, purchasing all materials, supplies and equipment pursuant to purchasing regulations, and investigating any and all complaints and affairs concerning the administration of the government and the utilities service provided. Financial operations of the City

are performed by the Finance Department under the supervision of the Chief Financial Officer, who reports directly to the City Manager.

Mayor and Council Members

Phyllis Marcuccio was elected to her first term as Mayor in November 2009. Phyllis has always been available to her neighborhood and community. She has been the science curriculum consultant to several local area school systems, including Montgomery County. She helped to found the Rockville Consortium for Science and remains active in Rockville's Annual Science Day. Phyllis served on the Rockville Housing Authority for 10 years and was part of the Croydon Park Advisory Board and Review Committee. As president of the East Rockville Civic Association, she was instrumental in having an East Rockville Park. That mission led to creation of Mary Trumbo Park. She also helped spearhead the establishment of a neighborhood plan to ensure that East Rockville was considered in Town Center master planning. For 38 years, Phyllis worked for the National Science Teachers Association (NSTA), establishing herself as a national leader and innovator in childhood education. Among educators, she was probably best known for being one of the founders and editor of Science and Children magazine. She has written, edited and published journals, books and articles used by teachers at every level from kindergarten through college. She also was project director and/or judge for numerous grants (totaling more than \$30 million) and awards. Her periodicals have been widely recognized (e.g., Eleanor Fishburn and Educational Press Awards). Phyllis was known as a teacher of teachers, a presenter at science teacher conferences and a mentor for more than 50 NSTA staff. She was on the boards of several associations including the National Academy of Sciences Smithsonian Institution; the Pocono Environmental Education Center; and the Rockville area's own Hands-On-Science Outreach, Inc. She has lived in Rockville for more than 50 years and her life has been filled with community-minded activities and service.

John F. Hall is serving his third term on the Rockville City Council. He was re-elected to the City Council in 2011. He served two consecutive terms from 2001-2005, then stepped-down from the City Council, but remained active on Rockville City commissions, as a Montgomery County Public Schools cluster coordinator, and member of the Board of Directors of the Montgomery County Parent-Teacher Association, as well as a member of the Peerless Rockville Board of Directors. John is a nationally-licensed emergency medical services provider and master firefighter, serving for more than two decades as an active member of the Bethesda-Chevy Chase Rescue Squad. He also served for several years as vice president of the Rescue Squad, as well as a member of its Board of Directors. John is a licensed trial attorney who serves as the National Aeronautics and Space Administration's Director for Export Control and Interagency Liaison. From 1994 to 2000, John served as the Senior Counsel for International and Commercial Space Programs at NASA Headquarters. He has been awarded NASA's Spaceship Earth Award for outstanding community service and leadership, as well as citations from NASA's Office of the Inspector General and the Kennedy Space Center. Before joining NASA, John spent several years as an attorney at the United States Department of Commerce, where he was awarded the Commerce Department's highest honor: the Gold Medal, given for his work in developing effective export control programs in the newly-democratic nations of Central and Eastern Europe. Previously, John served as a successful international trade and trial attorney in private practice. John is a graduate of the Washington & Lee University School of Law and Georgetown University's School of Foreign Service. He also completed independent study in Warsaw, Poland, for undergraduate and law school, as well as law studies in Moscow and Leningrad, Russia.

Tom Moore was elected to his first term on the City Council in November 2011. Before being elected, Moore served as chairman of the Compensation Commission and on Peerless Rockville's Board of Directors. Moore serves as an attorney with the Rockville law firm of Ron M. Landsman, P.A. He has lived in the City's West End neighborhood since 1997. He and his lovely wife, Amy Gambrell, head up a household of six children: Alexander, Elsa, and Zoe Vincent; and Ellie, Joey, and Katie Moore. Earlier, Moore served on the City's Traffic and Transportation Commission for two terms and was a leader of citizen efforts to get the Rockville Memorial Library fully funded and built on time. He was a Town Center Action Team member and a West End Citizen's Association board member. He is proud to have served as an ambulance driver and membership committee chairman with the Rockville Volunteer Fire Department. Moore, a graduate of Montgomery County Public Schools, holds a degree in political science from Davidson College (1990) and a J.D., magna cum laude, from Georgetown University Law Center (2006).

Mark Pierzchala was elected to his first term on the City Council in November 2009. He is a statistician and systems analyst who works on major federal government surveys, mostly in the field of data collection. He has 26 years of experience through positions with the National Agricultural Statistics Service (USDA), Westat, and Mathematica Policy Research, Inc. He now has his own company MMP Survey Services, LLC. Mark is married to Lesley Cross. They met in Swaziland, Southern Africa when Mark was with the U.S. Peace Corps and Lesley was working for the International Voluntary Service (IVS). They now live in College Gardens. They have two daughters, one of whom is a junior at Indiana University while the other is a senior at Richard Montgomery High School. He was president of the College Gardens Civic Association from 2004 to 2008 and its secretary from 2000 to 2002. In late 2008, he was elected president of the Town Center Action Team (TCAT), a position he held until his election to Rockville's City Council in November 2009. Mark ran for office on a platform of budget discipline. He is also a neighborhood advocate and a strong environmentalist. He believes that ecologists and economists must work together towards long-term human sustainability. The Pierzchala/Cross household has 4 rain barrels, a rain garden, and their lot is a National Wildlife Habitat. Mark is a year-round cyclist and walker who often uses these means to traverse our fair City. He taught himself to ride a unicycle in 2007, and in his spare time tackles the Washington Post Magazine Sunday crossword puzzles. He was the official first visitor to the Newseum in Washington, DC in April 2008.

Bridget Donnell Newton was elected to her first term on the City Council in November 2009. Newton garnered the most votes cast for any candidate, and was the only councilmember elected in each of Rockville's 10 voting districts. A resident of Rockville since 1981, Newton brings a passion for Rockville's neighborhoods, community involvement and consensus building among all stakeholders. Elected in June to the Maryland Municipal League's Legislative Affairs Committee, Newton will continue her efforts of working with other elected officials to ensure that Rockville and other municipalities receive parity in State and County budget talks, school funding and environmental reform decisions. Born in New Haven, Connecticut, Newton grew up in West Carrollton, Ohio and Beaver Falls, Pennsylvania. Elected President of her Class, she graduated from Ohio Wesleyan University in 1980 with a Bachelor of Arts degree and a double major in History and Politics and Government. During a period of severe budget cuts at the University, Newton helped forge a bridge between the administration and students and was able to foster improved relationships and communication. Upon graduation, she moved to Alexandria, Virginia where she worked on Capitol Hill and then as a Project Manager for a consulting firm in D.C. before leaving in 1988 to become a full-time mother and volunteer. Married to Frederick W. Newton since 1982, they have 2 children. Councilmember Newton served one term to the Legislative Committee for the Maryland Municipal League and was recently re-elected to her second term. She was also elected to the Board of the Montgomery Chapter of the Maryland Municipal League. Prior to serving on the City Council, Newton's numerous volunteer experiences have helped shape her advocacy and provided a keen insight into the workings of the city government and its residents.

Senior City Staff

Barbara Matthews joined the City of Rockville as City Manager in October 2012. She has more than 25 years of local government experience and has served as the city manager of Takoma Park since 2004. Prior to her work in Takoma Park, Matthews spent three years as the city manager of the City of Manchester, Missouri. Ms. Matthews has also held positions with the cities of Kansas City, Gladstone, Kirkwood, and Lee's Summit, Missouri. She has an extensive background in all areas of municipal operations, including economic development, finance and budgeting, human resources, and labor relations. Ms. Matthews holds a bachelor's degree in economics and government from the University of Virginia and a master's degree in public affairs from Indiana University.

Gavin Cohen joined the City of Rockville as Director of Finance in May 2005. He currently serves as the City's Chief Financial Officer. He previously served as the Finance Director for the City of Solana Beach in San Diego County, California from 1999 through 2005 and the Assistant Finance Director for the City of Glendora in Los Angeles County California from 1996 through 1999. Prior to this he was a controller and auditor in private industry. Mr. Cohen has a Bachelor of Commerce degree from the University of Cape Town. He is a Certified Public Accountant, Certified Employee Benefits Specialist, and Certified Public Finance Officer. Mr. Cohen is a member of several professional organizations including American Institute of Certified Public Accountants, Association of Public Treasuries of the United States and Canada, International Foundation of Employee Benefits Plans and the national and local Government Finance Officers Associations.

Debra Yerg Daniel has served as the City Attorney for the City of Rockville since February 2009. Prior to coming to Rockville, she was an Associate General Counsel with the Maryland-National Capital Park and Planning Commission from 1995 to 2009. At the Commission, Ms. Daniel served as lead counsel to the Montgomery County Planning Board and the Montgomery County Planning Department and served as supervising attorney for the General Counsel's Montgomery County Land Use Team. Prior to her tenure with the Commission, Ms. Daniel worked as an associate with a professional malpractice defense firm in Baltimore and clerked for the Honorable Graydon S. McKee, III, in the Circuit Court for Prince George's County, Maryland. Ms. Daniel is a member of the Maryland and Montgomery County Bar Associations as well as the International Municipal Lawyers Association and the Maryland Municipal Attorneys Association. She holds a Bachelor of Arts degree from the University of Maryland and a Juris Doctor with honors from the George Washington University.

Christine Henry has served as the Acting Director of Recreation and Parks for the City of Rockville since June 2012. Her career with the City of Rockville began in 1989 and has served as the Special Operations Supervisor, Special Events Coordinator and the Recreation and Parks Administration Manager. Ms. Henry holds a Bachelor of Science degree from Towson State University and a Masters in Applied Management from the University of Maryland, University College. She has been a member of and has served in various volunteer capacities with, the Maryland Recreation and Parks Association and the National Recreation and Parks Association.

Craig Simoneau has been Rockville's Public Works Director since September 2005. Prior to that, Mr. Simoneau worked as the Director of Public Works and Logistics at Fort Monroe, Va., in the United States Army. In an Army career spanning more than 20 years, he held progressively responsible project management and executive management positions covering a broad range of public works and related responsibilities, including construction, project design, facility operations and emergency operations. As Public Works Director at Fort Monroe, Mr. Simoneau led an organization of 117 employees responsible for constructing, operating and maintaining all base facilities, including buildings, water treatment plant, distribution facilities and sanitary sewer systems; managing residential and commercial refuse operations; and maintaining the vehicle fleet. Mr. Simoneau was also responsible for executing a \$103 million repair and reconstruction program to effectively recover from Hurricane Isabel damage. Mr. Simoneau is a Licensed Professional Engineer. He is a West Point graduate, and has a Master of Science degree in Civil Engineering from Massachusetts Institute of Technology.

Susan Swift was appointed Director of Community Planning and Development Services in April 2008, and is responsible for planning, zoning, housing, historic preservation and building permit and inspections functions. For the six years prior she was the Director of Planning, Zoning and Development for the Town of Leesburg. Ms. Swift has worked in both the public and private sectors as a city planner and planning manager. From 1995 to 2002, she served as the Planning Manager for two Florida consulting firms, Tampa Bay Engineering Group and HDR, Inc. Her consulting practice focused on redevelopment plans, zoning regulations and eminent domain, and she is recognized as an expert witness in eminent domain, city planning and zoning matters. Ms. Swift worked for the City of Tampa, a community of 300,000, from 1984 to 1995. She served as the Manager of Development Coordination and was then promoted to Deputy Director of Housing, Inspections and Community Services – a department with 190 personnel. She also held city planner positions in the cities of Pinellas Park and St. Petersburg. Ms. Swift has a Bachelor's degree in Geography from the University of Florida and a Masters of Urban and Regional Planning from Florida State University.

Michael Q. Cannon has served as Chief Information Officer and Director of Information Technology since February 1999. For the six years prior to his work at Rockville, he was the Director of Management Information Systems for the Council on Foundations, a nonprofit organization in Washington, D.C. From 1988 to 1992, he was the Director of Management Information Systems for Com-Site Enterprises, a group of nine privately held companies in the high technology facilities integration business. Prior to 1988, he worked in software development and network integration at the Travel Industry Association. Mr. Cannon holds a Bachelor of Arts degree in Economics from Brigham Young University, and an MBA with an emphasis in Information Systems and Telecommunications, from University of Maryland, College Park.

Terrance Treschuk has served as Chief of Police in Rockville since 1989. Chief Treschuk holds a Bachelor of Science Degree in Criminal Justice Administration from the University of New Haven and a Master of Science Degree in Criminal Justice Administration from American International College. He is also a Graduate of Babson College School for Police Administrations, Wellesley, Massachusetts, and the 114th Session of the Federal Bureau of

Investigation National Academy for Police Administrators, Quantico, Virginia. He was Chief of Police for the Town of Granby, Connecticut for seven years prior to coming to Rockville. He holds active memberships in several professional organizations: The International Association of Chiefs of Police (IACP) and serves on the mid-sized cities planning group, Police Executive Research Forum (PERF), and the Commission on Accreditation of Law Enforcement Agencies (CALEA).

Colette Anthony has served as the Acting Human Resources Director for the City of Rockville since May 2012. Her career with the City of Rockville began in 1997 and has served as the Personnel Technician, Human Resources Administrator and the Employee and Labor Relations Manager. She serves as the primary point of contact for the City's recognized labor organizations and negotiates on behalf of the City with regard to wages, hours, and terms and conditions of employment. She received her Bachelor of Science in Business Management from Elon University and her Master of Science in Management from University of Maryland University College. She is a member of the Society for Human Resource Management (SHRM) and the International Public Management Association for Human Resources (IPMA-HR).

City Government Services

The City of Rockville provides a full range of services for the community including: zoning and planning; water, sewer, and refuse collection services; one-stop location for licenses, permits, and inspections; snow removal, leaf collection, street maintenance, and other public works functions; recreation and parks services; and special programs for senior citizens, youth and low-income residents.

City Manager's Office

The Department of the City Manager coordinates with the Mayor and Council to enact and implement City policy and to manage the policy agenda by providing management and administrative support for the day-to-day operations of the City government. The Department manages Citizen Service Requests and the Citizen satisfaction survey, Intergovernmental Affairs, Organizational Development, Economic Development, Public Information Office, City Website and Cable Television, Graphics and Printing, Neighborhood Resources, and Human Rights and Community Mediation.

Community Planning and Development Services

The Department of Community Planning and Development Services promotes and facilitates the orderly development and redevelopment of the city to benefit both residential and business activity. The department prepares plans and develops programs that provide policy guidance and support to the Mayor and Council, Planning Commission Boards and Commissions, and the City senior management staff to make public decisions with respect to the provision of adequate public facilities and services, the use of land, and the administration of laws affecting development policies. The Department contains five divisions: Executive, Long Range Planning and Implementation, Planning and Zoning, Inspection Services, and Housing.

Finance

The Department of Finance helps the various agencies of the City government meet their service objectives by acquiring goods and services, allocating the organization's available financial resources, processing financial transactions and providing information and analysis as a basis for decision making. The department bills and/or collects the major City revenues and provides assistance to taxpayers and utility customers. The department also provides financial planning services for the City, secures financing for capital construction, and safeguards and invests City funds. The Department accomplishes this through five divisions: Administration, Accounting and Control, Revenue, Purchasing and Stockroom, and Budget.

Fire Department

Fire protection is provided by the Rockville Volunteer Fire Department, which is staffed by 144 paid professional and 259 volunteer fire fighters. The Rockville District includes four fire stations, two of which are located in the city limits. All four, however, respond to calls within Rockville.

There are 34 fire and rescue stations, and 12 worksites in Montgomery County, all of which participate in overall planning, fire prevention programs, operation of a centralized dispatch service, and training provided by the Montgomery County Fire and Rescue Services.

The Rockville Volunteer Fire Department is funded by a special County consolidated fire district tax of \$0.134 per \$100 of real property assessed value.

Human Resources

The Department of Human Resources recruits, retains, and services qualified and capable people in the most fair, effective, and efficient manner possible; and provides a full range of personnel and safety services in support of all other City departments and their functions. The Department provides classification and salary/grade studies, recruitment, testing, training, benefits, labor relations, and equal opportunity employment. The Department has four divisions: Human Resources, Learning, Performance, and Development, Health and Wellness, and Safety and Risk Management.

Information and Technology

The Department of Information and Technology is dedicated to providing technology services through computer systems, telecommunications systems, telephone systems, and the Internet. The Department manages the City's telephone, telecommunications, and computer systems, including mainframes, personal computers, and local and wide area networks. The Department also maintains and manages the geographic information systems and collects revenues from telecommunications activities. The Department has three divisions: IT Operations, Voice Communications, and GIS Operations.

Public Safety

The Rockville City Police Department protects and promotes community safety. It is charged with the responsibilities of preserving the peace, protecting life and property, ensuring the safe and orderly movement of traffic, and providing the community with an overall sense of security.

Police protection is provided by both the City and Montgomery County, with the City's force providing an enhanced level of public safety service for City residents supplementary to that of the County. Both City and County respond to all types of calls. The Police Department has 57 sworn officers, plus 36 full time employees. City police officers are dispatched by the City dispatch system, but also listen to and respond to calls for service from the County dispatch system. Written memoranda of understanding between the City and the County govern their respective jurisdictions and responsibilities.

In addition, the Rockville Police Department provides community policing services and community enhancement and code enforcement, which are specially designed to meet the needs of the Rockville community through the assurance that residential and community properties are well maintained.

Public Works

The Department of Public Works provides services in the areas of streets; recycling and refuse collection; water, sewer and storm drain utilities; leaf collection; traffic operations; snow and ice control; and stormwater management. In Fiscal Year 2012, the Public Works Department maintained an estimated 156 miles of streets with 48 traffic signals, 3,266 streetlights and 256 miles of sidewalks. Refuse collection is provided to 13,885 dwelling units. The City sells its recycling materials while refuse is disposed of for a per-ton fee at a transfer station operated by Montgomery County.

The City owns and operates an 8 million gallon per day (MGD) water treatment plant, three potable water storage tanks with a total storage capacity of 12 million gallons, and 175 miles of water mains, which serve 12,650 residential and commercial accounts within the City. The Washington Suburban Sanitary Commission (WSSC) operates 20.5 miles of water mains within the city, serving approximately 5,600 residences.

The City provides wastewater collection through 148 miles of sewers for all residential and commercial areas except the WSSC service area. The City's wastewater is treated at the Blue Plains Wastewater Treatment Plant in the District of Columbia. Rockville has contractual entitlement to 9.31 MGD of capacity at this plant, under an agreement with the WSSC. The City also maintains 101 miles of storm drain lines. The City periodically inspects approximately 600 privately-owned stormwater facilities and 187 publicly-owned facilities.

Recreation and Parks

The Department of Recreation and Parks provides services such as parks and urban forest maintenance, recreation and cultural arts programs, special events, community services, a municipal golf course, and a swim center. It also maintains City buildings and facilities and provides quality maintenance and landscaping of all City rights-of-way. The department offers athletic programs, classes, cultural arts programs, and special fee supported trips. The department also offers community recreation programs such as playgrounds and open gyms that are supported through General Fund revenues. The department also provides for the well being of individuals, families, and communities through the identification of the human service needs of all residents; delivery of preventive and intervention programs including counseling and outreach services.

Regional Authorities

Washington Suburban Sanitary Commission

Operation and maintenance of the water and wastewater system for approximately 5,600 residences in Rockville and for the rest of Montgomery County and Prince George's County is the responsibility of a bi-county agency, the Washington Suburban Sanitary Commission (WSSC). WSSC operates under State law and is governed by a six-member commission. The county executives of Montgomery County and Prince George's County each appoint three members, subject to confirmation by the respective county councils. The FY 2014 proposed operating and capital budget for WSSC totaled approximately \$1.5 billion and it currently employs more than 1,700 positions.

Two major sources -- the Potomac and Patuxent Rivers -- provide the raw water supply. WSSC has 175 million gallons of water supply storage and an effective filtration capacity of 341 MGD. Most of the WSSC sewage flows through a gravity trunk line system for treatment at the Blue Plains Wastewater Treatment Plant in Washington, D.C. The Blue Plains Wastewater Treatment Plant has a wastewater treatment capacity of 370 MGD.

The Maryland-National Capital Park and Planning Commission

The Maryland-National Capital Park and Planning Commission administers more than 34,288 acres of parkland in Montgomery County. This includes 13 developed and three undeveloped regional and recreational parks, many consisting of over 200 acres, and featuring more than 640 acres of recreational lakes including Lake Frank, Lake Needwood, Little Seneca Lake and Pine Lake. Of the 409 parks in the Montgomery Park system, 310 smaller park and open space areas serve as local and neighborhood parks. Additionally, Seneca Creek State Park is located in the heart of the County, and Patuxent River State Park is located along the County's northeastern border. The National Park Service provides additional park facilities including the C&O Canal National Historic Park, Great Falls National Park, and Glen Echo Park.

Pension and Retirement Plan

ROCKville Employees Retirement System (ROCKERS) encompasses a single-employer defined benefit pension plan and a defined contribution pension plan. The system is considered part of the City of Rockville reporting entity and is included in the City's financial reports as pension trust funds.

The annual member compensation for employees covered by the ROCKERS for the plan year ended April 1, 2012 was \$34,736,846.

For further information pertaining to the City's pension plans refer to "Note 3" of the "Notes to General Purpose Financial Statements" contained as a part of Appendix A to this Official Statement.

Employee Relations and Bargaining Units

The City currently funds approximately 530 full-time equivalents on its work force. Administrative, technical, and clerical employees have the option of joining the Association of Administrative Municipal Employees (AAME), which meets and confers with management on various items of employee concern. Police officers also have the option of joining the Fraternal Order of Police (FOP), which also meets and confers with management. Neither AAME nor the FOP engages in collective bargaining with the City. Labor classification employees, who work in the Public Works and Recreation and Parks Departments, are represented by the American Federation of State, County and Municipal Employees (AFSCME) Local 1453, which bargains collectively with the City. The current contract is in force through June 30, 2014. Since the City recognized the union in 1967, there have been no strikes by municipal employees. The City considers its labor relations to be excellent.

Investment Policy

The City maintains an active cash and investment management program. The primary goals of the program are compliance the federal, state and local laws governing the investment of public monies, providing sufficient liquidity to meet financial obligations, preserve capital, and the attainment of a favorable rate of return.

The City's investment policy was revised in December 2010 and complies with all State of Maryland requirements. The City is authorized to invest in obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, in obligations that a federal agency issues in accordance with an Act of Congress, or in repurchase agreements that any of the foregoing obligations secure. In addition, the City may invest in bankers' acceptances, commercial paper of the highest investment grade, money market funds which are also of the highest investment grade and any investment created under the Maryland Local Government Investment Pool that is administered by the State Treasurer. The City's investment policy has received certification from the Association of Public Treasurers of the United States and Canada.

Other Post Employment Benefits

The City's Comprehensive Annual Financial Report (CAFR) at June 30, 2012 is in compliance with the Governmental Accounting Standards Board ("GASB") statement #45, which addresses how state and local governments are required to account for and report their costs and obligations related to other post employment benefits ("OPEB"), defined to include post retirement healthcare benefits. The City has established a Retiree Benefit Trust to fund its limited OPEB obligations. For further information pertaining to the City's pension plans refer to "Note 3" of the "Notes to General Purpose Financial Statements" contained as a part of Appendix A to this Official Statement.

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ECONOMIC AND DEMOGRAPHIC INFORMATION

Population

The City, with a 2010 population of 61,209, is the third largest city in the State of Maryland. Rockville experienced the same rapid population growth in the 1950s and 1960s that made the Washington Metropolitan Statistical Area one of the most rapidly growing large metropolitan areas in the nation. The City's population grew from 6,934 in 1950 to 26,090 by 1960 and 42,079 by 1970. Population growth moderated during the 1970s, 1980s and 1990s but significant growth began again starting in 2000s. Table 4 presents the population of the City and Montgomery County as recorded in the past five decennial censuses.

Table 4
Population Statistics

<u>Year</u>	<u>City of Rockville</u>	<u>Montgomery County</u>
2010 Census	61,209	971,777
2000 Census	47,388	878,683
1990 Census	44,835	759,600
1980 Census	43,811	579,053
1970 Census	42,079	522,809

Source: U.S. Bureau of the Census.

While Rockville's population has continued to grow, the makeup of its population continues to be relatively young with almost 60 percent of residents younger than age 45 in 2010. The distribution of population by age is presented in the table below.

Table 5
Percent of Total Population by Major Age Group

<u>Age Group</u>	<u>2010</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>
19 years and under	23.2%	25.4%	25.6%	32.8%	43.9%
20 to 44 years	36.6%	37.1%	42.5%	40.6%	34.2%
45 to 64 years	26.3%	24.5%	21.4%	20.3%	17.9%
65 years and over	<u>14.0%</u>	<u>13.1%</u>	<u>10.5%</u>	<u>6.3%</u>	<u>4.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: U.S. Bureau of the Census. (Detail may not add to summations due to rounding.)

Employment Characteristics

The City of Rockville Department of Community Planning and Development Services estimates that in 1990 the number of jobs in the city of Rockville was approximately 54,000. In the 2012 fiscal year, it is currently estimated that there were 74,800 jobs in the City, exceeding the 2012 Decennial Census population estimate of 62,243.

Employment in Montgomery County is well diversified, with the largest percentage of employment occurring in professional, scientific, management, administrative, waste management, educational, health care and social assistance sectors.

Table 6 presents categories of civilian employment in Montgomery County in 2010 compared with 2000. It also shows the percentages of people who work in the government sector versus the private sector in 2010 compared with 2000.

Table 6
Analysis of Change in Montgomery County Civilian At-Place Employment

<u>Employment by Sector</u>	<u>2010⁽¹⁾</u>	<u>2000⁽¹⁾</u>	<u>Difference</u>
Agriculture, Forestry, Fishing, Hunting, and Mining	0.19%	0.20%	-0.01
Construction	5.91%	5.10%	0.81
Manufacturing	3.01%	4.30%	-1.29
Wholesale Trade	1.15%	1.50%	-0.35
Retail Trade	7.93%	9.00%	-1.07
Transportation and Warehousing, and Utilities	2.00%	2.50%	-0.50
Information	3.12%	5.80%	-2.68
Finance, Insurance, Real Estate, Rental and Leasing	6.29%	8.10%	-1.81
Professional, Scientific, Management, Administrative and Waste Mgmt	21.34%	19.60%	1.74
Educational, Health Care and Social Assistance	21.91%	19.90%	2.01
Arts, Entertainment, Recreation, Accommodation and Food Services	8.66%	6.90%	1.76
Other Service, Except Public Administration	7.06%	7.10%	-0.04
Public Administration	<u>11.04%</u>	<u>10.10%</u>	0.94
Total Workers	<u>100.00%</u>	<u>100.00%</u>	
<u>Employment by Class</u>			
Private, Self-Employed, Non-Profit	77.69%	82.70%	-5.01
Government (Federal, State, Local)	<u>22.31%</u>	<u>17.30%</u>	5.01
Total Workers	<u>100.00%</u>	<u>100.00%</u>	

Source: U.S. Census Bureau.

⁽¹⁾ May not add up to 100% due to rounding.

Labor Force and Unemployment

Table 7 lists the labor force, employed and unemployed persons, and average unemployment rates for Montgomery County as compared to the unemployment rates for the State of Maryland for the years 2008 through 2012. Information presented in the table below has not been seasonally adjusted.

Table 7
Labor Force and Unemployment Statistics

<u>Year</u>	<u>Montgomery County</u>				<u>State of Maryland</u>
	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Rate</u>	<u>Unemployment Rate</u>
2012	534,366	505,471	28,895	5.4%	7.1%
2011	529,885	499,876	30,009	5.7%	7.4%
2010	526,133	494,780	31,353	6.0%	7.3%
2009	527,122	494,573	32,549	6.2%	7.4%
2008	524,459	506,799	17,660	3.4%	3.8%

Source: City of Rockville, Maryland Comprehensive Annual Financial Report.

Major Employers

In addition to the Montgomery County and City of Rockville governments, the 10 largest employers by number of employees are as follows:

Table 8
Major Employers in the City of Rockville

<u>Name</u>	<u>Product/Service</u>	<u>Employees</u>
Montgomery County	Government	4,985
Montgomery County Board of Education	Education	2,500
Lockheed Martin Information Systems	Engineering Contractor	2,000
Westat, Inc.	Research Organization	2,000
Booz Allen Hamilton	Management Consulting	1,282
Montgomery College	Education	955
Quest Software	IT	784
BAE Systems, Inc.	IT	650
City of Rockville	Government	537
Adventist HealthCare	Pharmaceutical Firm	415

Source: City of Rockville, Maryland Comprehensive Annual Financial Report.

Retail Sales and Buying Income

Income levels in the City of Rockville are among some of the highest in the nation. Retail sales have grown steadily in the City. Many of the major retail centers in the City are located in the Town Center and along Rockville Pike (Maryland Route 355). A significant percentage of the City's retail trade results from expenditures by individuals living outside the City.

Table 9 lists median household effective buying income (EBI) and per capita retail sales for the City of Rockville and Montgomery County for the years 2008 through 2012. Retail sales figures and median household effective buying income (EBI) are projections provided during the current year.

Table 9
Retail Sales/Buying Income

<u>Year</u>	<u>Median Household EBI</u>		<u>Per Capita Retail Sales</u>	
	<u>City of Rockville</u>	<u>Montgomery County</u>	<u>City of Rockville</u>	<u>Montgomery County</u>
2012	\$ 66,342	\$ 69,525	\$ 28,572	\$ 14,984
2011	67,822	69,577	31,114	14,803
2010	70,934	73,565	29,858	14,854
2009	69,309	71,558	31,902	16,264
2008	67,996	70,051	25,760	19,142

Source: *Sales and Marketing Management*, "Survey of Buying Power," for the 2008 editions where information was provided by Claritas, Inc. and by Claritas, Inc. directly for all other editions.

Household Income Levels

The relative distribution of income among Rockville households by income levels, according to the US Census Bureau's 2007-2011 American Community Survey Five Year Estimates, is presented in the following table.

Table 10
Distribution of Rockville Households by Income Levels

<u>Income Range</u>	<u>Number of Households</u>	<u>Percentage of Households</u>
Less than \$10,000	590	2.50%
\$10,000 to \$14,999	425	1.80%
\$15,000 to \$24,999	1,014	4.30%
\$25,000 to \$34,999	1,203	5.10%
\$35,000 to \$49,999	2,053	8.70%
\$50,000 to \$74,999	3,681	15.60%
\$75,000 to \$99,999	3,846	16.30%
\$100,000 to \$149,999	4,483	19.00%
\$150,000 to \$199,999	3,067	13.00%
\$200,000+	<u>3,232</u>	<u>13.70%</u>
Total	<u>23,593</u>	<u>100.00%</u>

Source: U.S. Census Bureau, 2007-2011 American Community Survey Five Year Estimates.

Land Use

Rockville's land use patterns reflect that of a maturing and urbanizing suburban employment center with stable residential neighborhoods. Most of the recent growth has been near Metro rail stations (Town Square and Twinbrook Station) or within master-planned developments (Upper Rock, Tower Oaks, King Farm, and Fallsgrove). While Tower Oaks is primarily an office park, King Farm and Fallsgrove represent the new development pattern of dense, mixed-use, transit-oriented residential development served by a neighborhood retail center.

There is little available vacant land remaining so growth is expected to focus on redevelopment of older low-density buildings. In general, this redevelopment will occur near Metro stations and along the city's key corridors (Rockville Pike/Rt. 355, Research Boulevard / Piccard Drive and areas adjacent to I-270). A significant amount of the growth will be redevelopment to more intensive and mixed uses, rather than development of scarce raw land.

The Master Plan and other City policies also promote the preservation of residential neighborhoods through zoning, enforcement of codes, and land-use decisions. All rental units in the City are licensed and inspected for conformance to property maintenance codes. The City does not have rent control.

Table 11 presents the office space within the City limits and includes Classes A, B and C office space, as classified by the Building Owners and Managers Association International (BOMA). Class A office buildings have the most prestigious buildings competing for premier office users with rents above average for the area with high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence. Class B office buildings are those with adequate systems that compete for a wide range of users with rents in the average range and finishes that are fair to good for the area. Class C buildings are aimed towards tenants requiring functional space at rents below the average for the area.

Table 11
Office Space in the City of Rockville

<u>Location</u>	<u>Total Square Footage</u>	<u>Available Square Footage</u>	<u>Vacancy Rate</u>
City of Rockville	14,564,930	2,137,212	14.67%

Source: City of Rockville Community Planning and Development Services.

Construction - Residential and Commercial Development

The City experienced significant residential and commercial growth during much of the previous decade as projects such as Town Center, King Farm, and Fallsgrove were built. Table 12 below presents a summary of new residential and non-residential activity for the past five years. Residential projects in the list include mixed use developments (Twinbrook Station and Upper Rock) senior housing (Brightview, Victory Court and National Lutheran Home) and single family construction at Chestnut Lodge.

The nonresidential projects include offices like the Rockville Metro Plaza in Town Center, office buildings in the Research Blvd. and Piccard Drive areas, the Montgomery College Science Center and the judicial annex building in Town Center. Recent permit activity indicates that projects were gaining momentum after a slow down as a result of the last recession. Rockville is identified by Montgomery County and the State of Maryland as being in the center of a key growth corridor and activity in residential and commercial development has increased with the improved economy.

Table 12
Building Permits

<u>Fiscal Year</u>	<u>New Residential⁽¹⁾</u>		<u>New Commercial/Industrial⁽²⁾</u>	
	<u>Number of New Units</u>	<u>Amount</u>	<u>Number of New Buildings</u>	<u>Amount</u>
2012	197	\$ 14,883,636	7	\$ 44,743,403
2011	286	40,214,400	4	11,548,152
2010	3	595,000	6	5,223,450
2009	284	31,075,973	8	81,223,352
2008	33	27,183,208	12	83,585,290

(1) Includes single family, condominium and apartment units.

(2) Includes commercial, retail, industrial, institutional and others.

Source: City of Rockville Community Planning and Development Services. Data is extracted per fiscal year from the City's Permit Plan system.

Future Development and Growth Goals

The City government has development review and permit processes that assist in promoting Rockville as an advantageous location for doing business. The City consistently follows its Master Plan in zoning and approving new development. The City adopted a revised Zoning Ordinance in 2008 that better reflects the City's maturation and urbanization. The Twinbrook Neighborhood Plan was adopted in 2010 and the City is currently working on a plan for that portion of Rockville Pike that lies south of downtown Rockville.

The following text highlights the most active development areas of the City and summarizes development that is approved and expected to be built in the near term.

Rockville Town Center. Downtown Rockville, known as Rockville Town Square is thriving since completion of Town Square, a 12.5 acre mixed use public private catalyst project. Plans were announced in 2003 for the redevelopment of more than 15 acres in downtown Rockville, which included two major components. First was the 12.5-acre \$369 million mixed-use Town Square project, which is now complete. It includes approximately 185,000 square feet of retail space, 644 residential units (152 condominiums and 492 apartments); the Arts and Innovation Center, which includes a 2-story center for visual arts and a 2-story "incubator" for start-up biotechnology-oriented companies; the new Rockville Library, which has 2 stories of library space and one story of County offices; three public parking garages with 970 parking spaces; a new public plaza; and two new streets. Approximately \$267 million in private investment and \$102 million in public investment from a combination of the City of Rockville, Montgomery County, the State of Maryland and the federal government have funded the project.

Adjacent to Town Square is the privately financed Rockville Metro Plaza, which, when completed, will include three new office buildings just across MD 355 from the Rockville Metro Station. Already completed is the first of these buildings, which is a 230,000-square-foot Class A facility that delivered in October 2002. Software developer SAS Institute is the lead tenant in this building.

Projects under construction include:

- At 196 East Montgomery Avenue, construction is underway for the first phase of approved development of 485 high rise residential units, a 140-room hotel (Cambria Suites) and 45,300 square feet of street level retail for Duball LLC.
- At 50 Maryland Avenue, a 6-story, 166,000 square feet of annex to the Montgomery County Judicial Center for the expansion of the Circuit Court is under construction
- Corporate headquarters of Choice Hotels International at 111 Rockville Pike is under construction at the corner of Middle Lane and Route 355, bringing approximately 475 jobs into the City.

The success of Town Square has capitalized private development on nearby blocks.

- The former Orange Ball Billiards site, at 430 Hungerford Drive has been approved for a Walgreen's drug store, and is under construction and will be a major upgrade to the site.
- KSI Services Inc. has an approval for a multifamily residential building with 325 units and retail on the first floor at the Bank of America site at 255 N. Washington St.
- A pre-application was filed by Hungerford Retail LLC for the former Giant Food Site at 275 N. Washington St. for a two-story building with office and retail space, as the first phase in redeveloping that property.

Twinbrook Station. This mixed-use project includes multifamily residential, office, and retail uses, is already being described as a model of transit-oriented development, though only the first phase has been constructed. Twinbrook Station is a proposed mixed-use development at the Twinbrook Metro Station that was annexed by the City in 2005. The 26-acre property is approved for 1,595 multi-family dwelling units, 325,000 square feet of office, and 220,000 square feet of commercial retail space. Phase I with 15,622 square feet of ground floor retail and 279 residential units was completed in 2010. The next phase of development is approved for 206 residential units and 37,093 square feet of ground floor retail.

Upper Rock. This is a planned mixed use community, on 19.8 acres of property near I-270 and Shady Grove Rd. It includes multifamily residential, commercial and live/work components with residential amenity facilities and structured parking to complement existing office uses.

There are two existing office buildings, a nine story building of 238,087 square feet at 1 Choke Cherry Road completed in 2005, and a three-story building of 73,700 square feet at 5 Choke Cherry Road.

Overall proposed development includes, a total of 844 multifamily residential units in six buildings, which include up to 126 live/work units, additional of 23,500 square feet of commercial/retail (including 14,500 square feet in the market place), structured parking garages, outdoor plaza, green spaces and conversion of the existing 73,700 square feet building at 5 Choke Cherry Road into residential units.

The total number of residential living units permitted to date for the first four buildings is 552 units. The first two buildings are completed and now leasing and two buildings will be under construction by March 1, 2013. The entire project, both residential and commercial, is expected to be built out by 2020 contingent upon market conditions and other factors.

King Farm. King Farm is a 430-acre urban village in Rockville. The residential component of King Farm is completed with 394 single-family detached units, 893 multifamily attached units, and 2,250 multifamily units. There are 650 units approved for the Ingleside, at the King Farm community, which would primarily cater to the needs of the City's senior population by providing senior living facility including independent living, assisted living and nursing home uses. The first phase is occupied with 315 units at 701 King Farm Boulevard.

Construction of the office building, Four Irvington Centre is complete and features over 200,000 square feet of space and a 120-person conference room. Three Irvington Center was completed in April 2002 with 217,000 square foot building. The 165,000 square foot building at Two Irvington Center was completed in December 2000. Lead

tenants in Irvington Center include Catamaran, Nasdaq, Guggenheim Investments, Open Tech, Skanska USA, Dell computers, Morgan Stanley, United Health Care, Liberty Mutual and Embrace Homes. In addition, construction of a 175,000 square foot full service Sheraton hotel was completed in 2006.

Approved and in the pipeline are:

- Four additional buildings with approximately 1 million square feet of office space and 20,000 square feet of retail proposed to be built by 2030.
- The remaining units 335 units in Ingleside are expected to be built by 2020.

Tower Oaks Corporate Park. This 200-acre site is prominently located just off I-270 in Rockville. The entire Tower Oaks Corporate Park is planned for over two million square feet of office and restaurant space. The 180,000 square foot building located at 2600 Tower Oaks Boulevard, includes tenants such as wealth management consultant Fortigent, LLC, satellite services provider Vizada, Inc. and primary tenant EMC. Booz Allen and Hamilton, Bank of America and the U.S. Department of Health and Human Services are among the tenants in the dramatic 260,000 square foot Tower Building located at 1101 Wootton Parkway. A 198,000 square foot office building at 2000 Tower Oaks Boulevard, built by the Tower Companies and Lerner Enterprises, was completed in summer of 2008. This building is LEED-Platinum certified, and includes the corporate headquarters of its developers.

Approved and in the pipeline are a renaissance hotel, a condominium hotel and fitness center at 2300 Tower Oaks Boulevard.

Fallsgrove (Thomas Farm). In fiscal year 2000, the Mayor and Council approved a Comprehensive Planned Development (CPD) for the Fallsgrove development (formerly known as the Thomas Farm). The 254-acre property was approved for 1,800 dwelling units, 950,000 square feet of office (150,000 square feet was amended for a hotel use) and research and development space, and 150,000 square feet of commercial retail.

Fallsgrove now includes a total of 1,442 residential units, of which there are 230 single family detached units, 318 attached units and 849 multifamily units. Construction has also been completed on 219,878 square feet of office space; 125,940 square feet of retail in the Village Center and two hotels. The project includes a large section of the Millennium Trail bike path, a park, a school site, Thomas Farm community center, and significant open space.

Fallsgrove Executive Center, a new 114,776 square feet office building with ground floor retail at the corner of Shady Grove and Blackwell Road, is currently under construction. Three medical office buildings totaling 134,370 square feet have received site plan approval from the City.

Rockville Pike. The Rockville Pike Plan area within the City boundary covers a two-mile stretch of State Route 355, including land on each side, totaling 382 acres. It runs from Richard Montgomery Drive at the north, to the City limits, just north of Bou Avenue.

The last master plan for the area was adopted in 1989. The City embarked on a new planning process in 2007 and retained the services of ACP Visioning + Planning (ACP) and subcontractors to improve the functionality and design and to develop a community vision for the corridor.

The consultants' study, entitled *Rockville's Pike: Envision a Great Place*, was released in January 2011 and has since been undergoing review and revision by the Planning Commission. The Commission d intends to make a recommendation on the plan and move it forward to the Mayor and Council in the spring of 2013.

The plan proposes local access roads parallel to the Pike, added street grid and smaller block sizes, and greatly improved bicycle and pedestrian accommodations are important elements of these recommended improvements. If built, Montgomery County's proposal for a Bus Rapid Transit system, which includes a route along this portion of Rockville Pike, will have a significant impact on the corridor and is compatible with the City's draft plan.

Although retail is still the primary market driver, multifamily residential and mixed use is emerging near Metro rail stations. The Rockville Pike corridor has reasonably strong potential for growth in multi-family housing. The consultant team for the Pike plan estimated that the plan area alone can absorb 200-300 units a. In 2007, the plan area was estimated to contain approximately 1.27 million square feet of office space with approximately 4,500 square feet additional absorption annually.

Several projects have recently received City approval:

- 1900 Chapman Ave, with 667 multifamily units and 5,000 square feet of non-residential space (Syms site)
- 1800 Rockville Pike, Twinbrook Square, including 360 multifamily units and 91,600 square feet of non-residential space including a grocery store, retail and restaurants (JBG project);
- 1592 Rockville Pike, Twinbrook Metro Place, with 160,000 of office space, 792 multifamily units, a 190-room hotel, restaurant, health club and retail space.
- 900 Rockville Pike, with 12,500 square feet of retail, showroom and office space (Champion Billiards site);
- 611 Rockville Pike with office (112,600 square feet) and retail (14,000 square feet) space at the Sandy Spring Bank site.

Housing

According to the 2012 Census (American Community Survey, 2007-2011 5-Year Estimates), the City of Rockville had a total of 24,819 housing units. Table 13 shows the growth of the City's housing stock since 1970. Approximately 60 percent of the housing stock was built before 1980; however housing quality and condition remain high.

Table 13
Dwelling Units Occupied by Year and by Type

	<u>2010</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>
Single Family Detached	11,259	10,487	10,181	9,797	8,537
Single Family Attached	3,555	2,755	1,919	1,870	86
Multi-Family	<u>10,385</u>	<u>4,526</u>	<u>4,212</u>	<u>3,387</u>	<u>3,045</u>
Total	<u>25,199</u>	<u>17,768</u>	<u>16,312</u>	<u>15,054</u>	<u>11,668</u>

Source: U.S. Bureau of the Census.

In 2010, 60% of the housing stock was single-family, attached and detached; and 41% was multifamily. New housing types projected in the City are predominately in the multifamily sector.

Housing prices in Rockville are trending back upward with the average assessed value for single-family detached residences at \$458,789. For additional information on Rockville housing, please refer to the housing scan at <http://www.rockvillemd.gov/government/trends/HousingTrends062012.pdf> on the City's web site. This report provides information on housing market, affordable housing and other trends.

The City's policies, Comprehensive Master Plan and development regulations emphasize protection of its neighborhoods, thus maintaining property values and neighborhood stability. Further protections are provided through the many historic districts and buildings with historic designation, as well as the Lincoln Park conservation district.

Another tool for preserving neighborhoods is the City's home improvements program. Since 1975, the City has operated a federally funded Community Development Block Grant (CDBG) single-family rehabilitation program under which forgivable loans are provided to low and moderate income families who would not normally be able to afford the necessary repairs and improvements to their homes. About five to seven households per year receive assistance under this program.

Rockville negotiated an agreement with WSSC in 1975 that guarantees the City a total of 9.31 mg/d sewer capacity, so there is adequate capacity to accommodate additional housing construction. Any limits on construction activity in Montgomery County due to sewage capacity problems should not restrict development of Rockville.

As noted on previous pages, Rockville's form of development is becoming increasingly transit-oriented with more mixed use and mid-rise residential projects on the horizon.

Table 14, provides projections of future dwelling units that will be needed to accommodate the population projected in regional forecasts.

Table 14
Dwelling Units Projected by Year and by Type

	<u>2015</u>	<u>2020</u>	<u>2025</u>	<u>2030</u>	<u>2035</u>	<u>2040</u>
Single Family Detached	11,296	12,601	12,601	12,601	12,601	12,601
Single Family Attached	3,555	3,555	3,555	3,555	3,555	3,555
Multi-Family	<u>11,653</u>	<u>12,463</u>	<u>14,115</u>	<u>15,803</u>	<u>17,546</u>	<u>19,196</u>
Total	<u>26,504</u>	<u>28,619</u>	<u>30,271</u>	<u>31,959</u>	<u>33,702</u>	<u>35,352</u>

Source: CPDS, City of Rockville. Forecasts produced as a part of the MWCOG Round 8.2 process, November 2012.

Utilities

Electricity

Electric power for Rockville and the surrounding area is provided by the Potomac Electric Power Company (PEPCO).

Gas

Three natural gas transmission pipeline companies (Columbia Gas Transmission, Dominion Transmission and Transcontinental Gas Pipeline Corporation) supply Rockville and surrounding areas with natural gas. The distributor is the Washington Gas Light Company.

Wastewater

The City of Rockville operates its own wastewater collection system serving the entire City except for two WSSC service areas. Rockville's capacity at the Blue Plains Wastewater Treatment Plant in the District of Columbia is 9.3 MGD; average daily flow in fiscal year 2010 was approximately 7.2 MGD.

Water

The City of Rockville's Water Treatment Plant treats and distributes water to about 70 percent of the City. The Potomac River is the raw water source. Average daily demand during fiscal year 2011 was about 5 MGD. About 30 percent of the City's residents and businesses receive water service from the WSSC.

Over the years, the City has continually invested in its 53-year-old Water Treatment Plant to expand treatment capacity, rehabilitate and/or replace aging equipment, and to meet increasingly stringent water quality standards. Most recently, the City completed in June 2011 a \$2.1 million project funded in part by a federal American Recovery and Reinvestment Act (ARRA) grant to rehabilitate or replace aging components as well as improve energy efficiency. Additionally, the City has an ongoing, sustainable water main rehabilitation program that will spend about \$3 million annually for the design and construction of water system improvements to renew and upgrade the City's aging water distribution system.

Transportation

Rockville is located along one of the major east coast rail and highway routes to the northeast. Interstate 270 bisects the City and is the major route to such industrial centers as Buffalo, Pittsburgh, and Cleveland. Interstate 495 (Capital Beltway) and Interstate 95 provide access to Baltimore, Philadelphia, and New York City. Rail service in Rockville includes Amtrak passenger trains, Baltimore and Ohio freight and passenger service, and six-day commuter rail service. Six other railroads are available in nearby Washington, D.C.

Rockville is within 45 minutes driving time of three major airports: Baltimore-Washington International Thurgood Marshall, Dulles International, and Ronald Reagan Washington National Airport. Private and business aircraft are served by Montgomery County Airpark, 10 minutes north of Rockville.

Rockville is served by the Washington Metropolitan Area Transit Authority's Metrobus system and Metrorail. Several bus lines travel between Montgomery College, the Rockville Town Center, and downtown Washington, D.C. Other lines provide access between Rockville and suburbs to the east, including the Silver Spring Metrorail station. In addition, a County-operated, neighborhood-oriented 'Ride-On' minibus system has been in operation in Rockville since 1984.

Rockville is served by the Metro rapid transit system which connects Rockville to downtown Washington D.C. Downtown Washington D.C. and the greater metropolitan community are easily accessible for those who live and those who work in Rockville. One rapid rail station is located in downtown Rockville, close to the County Government Center and the businesses in the Town Center. A second station, the Twinbrook Station, is located near several residential neighborhoods and the commercial area along Maryland Route 355. A third station, Shady Grove, on the northern edge of the City is just outside City boundaries. Rockville residents are able to travel to downtown Washington D.C. in 25 minutes. The combination of service to, from, and within Rockville facilitates travel for area employees and shoppers.

Educational Facilities

Primary and Secondary

Public schools in Rockville are operated by the Montgomery County Board of Education. Currently the 17th largest school district in the United States, the system operates 200 elementary and secondary schools. For the 2011-2012 school year, student enrollment was 146,497 students. The total MCPS full-time staff is 21,967, of which 11,593 are teachers. The recommended operating budget is \$2.217 billion for fiscal year 2014. The emphasis that the County residents place on education is reflected in per pupil operating expenditures of \$14,629 in fiscal year 2013, and in the high percent of high school graduates who continue formal education.

Montgomery County Public Schools (MCPS) students continue to score above state and national averages on Scholastic Aptitude Tests. The Class of 2012, MCPS students achieved various forms of academic distinctions, including 141 National Merit Scholars and 35 National Blue Ribbon schools. A historic high of 31,734 Advanced Placement (AP) exams were taken by MCPS students in 2011. Students earned a 3 or higher on 72 percent of AP exams, a college readiness test.

Institutions of Higher Education

Montgomery College. According to Montgomery College 2010-2020 Facilities Master Plan Annual Update, the Rockville Campus of Montgomery College is approximately 87 acres and has 19 academic buildings and support facilities that were mostly built in the 1960's and are functionally inadequate because of their sizes and age. The plan also indicated that Rockville campus has an enrollment over 16,000 students in fall of 2010, and enrollment is expected to grow 7% through 2020. To support the proposed increase in enrollment over 500,000 square feet of additional space is needed.

A new 140,000 square-foot of Science Center was completed in fall of 2009 on the South Side of the Rockville Campus at the Mannakee Street entrance to provide space for students seeking affordable, high quality programs in science, engineering and mathematics.

Area Universities. Eleven major universities offering advanced degree programs in engineering, medical, business and computer sciences are located within commuting distance of Rockville. Included among them are the University of Maryland, Georgetown University, The George Washington University, Johns Hopkins University, Howard University, Hood College, American University, Catholic University of America, and the University of the District of Columbia.

Recreation and Parks

Rockville has 66 public parks comprising more than 1,042 acres of parkland. Under its Urban Forestry program, the City maintains more than 25,200 street trees and thousands of trees located on facility grounds and in the parks; Rockville is a Tree City USA. The Horticulture division plants and maintains 230 flower beds that beautify the community environment. The department operates a municipal swim & fitness center with four large pools (indoor/outdoor) and a new fitness/meeting room addition, a full-service senior center offering social services, recreation, and fitness/wellness programs, a municipal golf course, a civic center complex, which includes a historical mansion, a 465-seat theater and a nature center, plus three large and four small community recreation centers. Recreation programs for all ages are offered throughout the year, housed in City facilities, and utilizing the eight elementary schools, two middle schools and three high schools. These include sports, dance, arts, crafts, cooking, exercise, lifetime skills and hobbies, and more. Rockville residents enjoy an extensive arts program, including an art gallery, seven resident theater groups, art-in-public places, concert series, and other events. The department operates and maintains 70 City buildings, including the new Police Station. The City's Community Services division operates within Recreation and Parks and provides supportive programs and services to help at-risk and disadvantaged youth and families become self-sufficient, make positive life choices and adjust to life and societal challenges. Major special events include Independence Day fireworks; Hometown Holidays, a three-day festival over Memorial Day Weekend; a Maryland wine festival, Antique and Classic Car Show; and four major road running races.

Rockville residents enjoy a variety of private-sector recreational facilities and programs, including two private golf courses and country clubs, a major ice skating arena, racquetball/squash courts, fitness/exercise clubs, and more.

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FINANCIAL SUMMARY

Taxable Assessed Value – for the Fiscal Year ending June 30, 2012		\$	11,756,261,157
General Obligation Long-Term Debt (Includes the Obligations)		\$	151,137,772
Revenue Debt		\$	--
Overlapping General Obligation Debt		\$	171,164,902
Population (2012 Estimate)			62,243
Debt Ratios:			
	<u>Amount</u>	Debt Per Capita <u>(62,243)</u>	% of Taxable Assessed Value
General Obligation Long-Term Debt	\$ 151,137,772	\$ 2,428	1.29%
Overlapping Debt	<u>171,164,902</u>	<u>2,750</u>	<u>1.46%</u>
Total	<u>\$ 324,302,674</u>	<u>\$ 5,178</u>	<u>2.75%</u>

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INDEBTEDNESS OF THE ISSUER

Authorization of Debt

The Issuer has the authority to issue general obligation bonds or bond anticipation notes upon a majority vote. General Obligation Bonds and Bond Anticipation Notes are issued to finance public improvements including the acquisition of land for public purposes, construction of significant facilities, nonrecurring rehabilitation or major repair of facilities and engineering, design, and planning work related to projects as set forth in the Issuer's Capital Improvement Program.

General obligation debt of the Issuer is divided, for the purposes of the following schedules, between debt that is primarily paid from the Issuer's tax levy and special assessment collections and debt that is paid from the revenues of the Issuer's water, sanitary sewer, stormwater, parking, golf and refuse enterprise funds. Though various sources of revenue are used to pay debt service, the Issuer's general obligation bonds are all backed by the Issuer's full faith, credit and taxing power.

Debt History

Table 15 presents the Issuer's historical summary of bonded indebtedness for the past five years.

Table 15
Historical Summary of Bonded Indebtedness

<u>As of June 30</u>	<u>Total Bonded Debt⁽¹⁾</u>	<u>Enterprise</u>	<u>Net Bonded Debt</u>	<u>Adjusted Net Bonded Debt⁽²⁾</u>
2012	\$ 135,857,773	\$ 88,773,029	\$ 47,084,744	\$ 44,162,035
2011	131,230,470	80,221,170	51,009,300	47,709,100
2010	110,416,737	73,685,966	36,730,771	34,253,940
2009	118,054,130	77,859,325	40,194,802	37,043,018
2008	112,498,242	68,836,288	43,661,954	39,515,693

(1) Includes general obligation bonds and the Enterprise Fund debt.

(2) The net bonded debt is reduced by the amount of equity in the Debt Service Fund for the purpose of calculating the ratio and per capita figures in the following table.

Table 16 presents debt statistics for the past five years.

Table 16
Five Year Debt Statistics

<u>As of June 30</u>	<u>Population⁽¹⁾</u>	<u>Taxable Assessed Value</u>	<u>Adjusted Net Bonded Debt</u>	<u>Adjusted Net Bonded Debt to Assessed Value</u>	<u>Adjusted Net Bonded Debt Per Capita</u>
2012	62,243	\$ 11,756,261,157	\$ 44,162,035	0.38%	\$ 710
2011	61,209	11,930,400,120	47,709,100	0.40%	779
2010	62,476	12,008,399,297	34,253,940	0.29%	548
2009	64,860	11,515,493,135	37,043,018	0.32%	571
2008	63,170	10,536,940,794	39,515,693	0.38%	626

(1) Provided by the City of Rockville Department of Community Planning and Development Services.

Debt Limit

There are no statutory or Charter provisions limiting the amount of general obligation debt that may be issued by the Issuer.

General Obligation Long-Term Debt

The table below summarizes the outstanding debt of the Issuer as of June 30, 2012 and upon the issuance of the Obligations described herein.

Table 17
General Obligation
Debt Outstanding by Issue

General Fund	<u>Issue Date</u>	<u>Interest Range Outstanding</u>	<u>Final Maturity Date</u>	<u>Principal Outstanding</u>
General Improvements	2003	3.00%	2013	\$ 505,678 ⁽¹⁾
General Improvements – refunding	2003	2.875% - 3.00%	2013	152,629
General Improvements	2004	4.00% - 5.00%	2024	6,840,000
General Improvements	2005	3.50% - 4.25%	2025	9,015,000
General Improvements	2007	4.00% - 4.25%	2027	7,800,000
General Improvements	2010	2.00% - 4.10%	2031	16,520,000
General Improvements – refunding	2011	2.00% - 3.00%	2021	1,198,432
General Improvements – refunding	2013	Issue Herein	2023	<u>4,551,101</u>
Total General Fund Bonds				<u>\$ 46,582,840</u>
Business Type Activity				
General Improvements	1999	3.21%	2019	\$ 1,183,355 ⁽²⁾
General Improvements	2000	3.64%	2020	972,824 ⁽²⁾
General Improvements	2002	1.90%	2023	2,086,550 ⁽²⁾
General Improvements	2003	3.00%	2023	164,322 ⁽¹⁾⁽³⁾
General Improvements – refunding	2003	2.00% - 3.00%	2013	62,372 ⁽⁴⁾
General Improvements	2004	4.00% - 5.00%	2029	2,110,000 ⁽⁵⁾⁽⁶⁾
General Improvements	2005	0%	2025	944,621 ⁽⁷⁾
General Improvements	2005	3.50% - 6.00%	2036	10,350,000 ⁽⁸⁾⁽⁹⁾
General Improvements	2007	4.00% - 4.25%	2027	7,180,000 ⁽¹⁰⁾
General Improvements	2008	3.00% - 4.50%	2028	9,820,000 ⁽²⁾
Loan Payable	2010	1.00%	2031	800,422 ⁽⁷⁾⁽¹¹⁾
General Improvements	2011	2.00% - 4.10%	2031	9,270,000 ⁽⁴⁾
General Improvements – refunding	2011	2.00% - 3.00%	2021	1,521,568 ⁽¹²⁾
General Improvements	2012	2.00% - 3.375%	2032	9,835,000 ⁽⁴⁾
General Improvements – refunding (taxable)	2012	3.50% - 4.375%	2036	30,830,000 ⁽¹³⁾
General Improvements	2013	Issue Herein	2034	15,945,000
General Improvements – refunding	2013	Issue Herein	2023	<u>1,478,898⁽³⁾</u>
Total Business Type Activity Bonds				<u>\$ 104,554,932</u>
Total General Obligation Bonds				<u>\$ 151,137,772</u>

(1) The Bonds maturing in the years 2014 through 2023 will be called for redemption on March 28, 2013 and current refunded by the Series 2013B Bonds described herein. Therefore, those maturities have not been included in calculating the outstanding debt.

(2) This portion represents the amount abated with funds from the water fund.

(3) This portion represents the amount abated with funds from the sanitary sewer and golf course funds.

(4) This portion represents the amount abated with funds from the water and sanitary sewer funds.

(5) Portions of the Bonds maturing in the years 2015 through 2029 will be called for redemption on March 15, 2014, and are defeased by the Series 2011C Bonds. Therefore, those maturities have not been included in calculating the outstanding debt.

(6) This portion represents the amount abated with funds from the parking, sanitary sewer, and refuse funds.

(7) This portion represents the amount abated with funds from the storm water fund.

(8) Portions of the Bonds maturing in the years 2018 through 2036 will be called for redemption on June 1, 2015, and are defeased by the Series 2011C Bonds. Therefore, those maturities have not been included in calculating the outstanding debt.

(9) This portion represents the amount abated with funds from the parking, water, sanitary sewer, and refuse funds.

(10) This portion represents the amount abated with funds from the water, sanitary sewer and refuse funds.

(11) This loan is not yet fully drawn, total authorized amount is \$998,100.

(12) This portion represents the amount abated with funds from the sanitary sewer fund.

(13) This portion represents the amount abated with funds from the parking fund.

As indicated in the table on the previous page, portions of the Issuer's general obligation debt service are being paid with revenues of the water, sewer, refuse, parking and golf course funds. The schedules on the following page report annual debt service payments for the Issuer's general obligation debt by source of payment. The following table presents the portion of the Issuer's debt service, including debt service on a portion of the Bonds, which is being paid through the tax levy and special assessments. The second table following presents the portion of the Issuer's debt service, including debt service on a portion of the Bonds, which is being paid with revenues of Issuer enterprise funds.

Table 18 presents the annual principal and interest payments for the Issuer's general obligation bonds, including the Bonds.

Table 18
General Obligation Debt
Schedule of Annual Maturities

Fiscal Year	Outstanding Debt		The Series 2013A Bonds		The Series 2013B Bonds		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$ 8,765,579	\$ 4,978,350	\$ --	\$ --	\$ --	\$ --	\$ 13,743,929
2014	7,921,483	4,466,949	--	623,890	625,000	201,512	13,838,834
2015	7,893,944	4,197,793	800,000	521,115	615,000	191,850	14,219,702
2016	7,777,243	3,938,410	795,000	497,115	610,000	173,400	13,791,168
2017	7,810,929	3,662,080	800,000	473,265	605,000	155,100	13,506,374
2018	7,740,013	3,381,005	795,000	441,265	605,000	136,950	13,099,233
2019	7,379,517	3,107,035	800,000	417,415	595,000	118,800	12,417,767
2020	7,243,005	2,843,683	800,000	385,415	595,000	95,000	11,962,103
2021	7,150,193	2,581,635	800,000	353,415	595,000	71,200	11,551,443
2022	6,509,851	2,322,975	800,000	321,415	595,000	47,400	10,596,641
2023	6,560,386	2,085,137	800,000	289,415	590,000	23,600	10,348,538
2024	6,391,033	1,845,302	805,000	265,050	--	--	9,301,750
2025	5,721,129	1,594,007	805,000	240,900	--	--	8,356,551
2026	4,509,396	1,385,150	805,000	216,750	--	--	6,911,961
2027	4,574,915	1,211,417	805,000	192,600	--	--	6,779,747
2028	3,805,445	1,032,633	805,000	168,450	--	--	5,807,493
2029	3,400,975	884,095	805,000	144,300	--	--	5,225,485
2030	3,471,510	750,235	805,000	120,150	--	--	5,138,310
2031	3,546,227	612,819	800,000	96,000	--	--	5,051,761
2032	2,415,000	471,038	800,000	72,000	--	--	3,749,903
2033	2,010,000	372,644	800,000	48,000	--	--	3,221,624
2034	2,095,000	287,219	800,000	24,000	--	--	3,195,919
2035	2,190,000	195,563	--	--	--	--	2,385,563
2036	<u>2,280,000</u>	<u>99,752</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,379,752</u>
Total	<u>\$ 129,162,773</u>	<u>\$ 48,306,927</u>	<u>\$15,945,000</u>	<u>\$ 5,922,040</u>	<u>\$ 6,030,000</u>	<u>\$ 1,214,812</u>	<u>\$ 206,581,551</u>

Table 19 reflects estimated net tax requirements for debt service of the Issuer's long-term obligations as of June 30, 2012. This table does not include the issuance of the Obligations described herein.

Table 19
General Obligation Debt
Issuer Net Requirement Analysis

<u>Fiscal Year June 30</u>	<u>Total General Obligation Debt Service Requirements</u>	<u>Debt Service Paid By Other Business Funds⁽¹⁾</u>	<u>Direct Issuer Debt Service Obligations⁽²⁾</u>
2013	\$ 13,743,929	\$ 8,333,334	\$ 5,410,595
2014	13,292,738	8,150,270	5,142,468
2015	12,975,943	7,955,565	5,020,378
2016	12,578,922	7,690,113	4,888,809
2017	12,314,503	7,554,130	4,760,373
2018	11,939,732	7,307,918	4,631,814
2019	11,281,816	6,782,299	4,499,517
2020	10,857,832	6,493,789	4,364,043
2021	10,478,182	6,245,152	4,233,030
2022	9,554,055	5,984,066	3,569,989
2023	9,336,292	5,885,402	3,450,890
2024	8,236,335	5,405,635	2,830,700
2025	7,315,136	5,155,629	2,159,507
2026	5,894,546	4,498,577	1,395,969
2027	5,786,332	4,436,932	1,349,400
2028	4,838,078	4,055,753	782,325
2029	4,285,070	3,528,395	756,675
2030	4,221,745	3,492,070	729,675
2031	4,159,046	3,457,198	701,848
2032	2,886,038	2,886,038	--
2033	2,382,644	2,382,644	--
2034	2,382,219	2,382,219	--
2035	2,385,563	2,385,563	--
2036	<u>2,379,752</u>	<u>2,379,752</u>	<u>--</u>
Total	<u>\$ 185,506,448</u>	<u>\$ 124,828,443</u>	<u>\$ 60,678,005</u>

(1) Reflects debt issued by the Issuer but paid through the water, sewer, refuse, parking and golf course funds.

(2) Portion of debt paid directly by general fund monies.

General Obligation Short-Term Debt

The Issuer currently has no short-term general obligation debt outstanding. The Issuer has not borrowed for cash flow purposes in the last ten years.

Revenue Debt

The Issuer has no revenue debt outstanding.

Other Commitments

Washington Suburban Sanitary Commission (WSSC)

The Issuer has contracted with WSSC to purchase a portion of the capacity of the Blue Plains Wastewater Treatment Plant. Through June 30, 2012, the Issuer had paid approximately \$46,699,268 as its contractual share of the construction costs of the treatment facility and the related sewer transmission lines. The Issuer's remaining contribution is estimated to be \$20,750,767 for treatment capacity. The Issuer intends to issue bonds to fund most of these costs.

In addition to the capacity cost described above, WSSC charges the Issuer a portion of its operating costs for treatment of sewage. The Issuer accrues an amount for these charges each year based on its best estimate of usage. Adjustments to the accrued charges which result from subsequent billings by the WSSC are recorded in the period during which the final bill is received by the Issuer.

Lease Commitments

The Issuer entered into a ten-year office lease which began on June 1, 2004, and expires on May 31, 2014. Total annual rent is \$94,800, with an annual rent increase of 3% for each year thereafter. The Issuer also has a five-year office lease which began on June 1, 2008 and expires on May 31, 2013. The following table presents the annual lease obligations.

Table 20
Operating Lease Annual Maturity Schedule

<u>Year</u>	<u>Rent Amount</u>
2013	\$ 237,990
2014	<u>127,404</u>
Total	<u>\$ 365,394</u>

Short Term Note Payable

In December 2012, the Issuer entered into a \$1,500,000 short-term note payable with Montgomery County, Maryland. The funds were used to assist Rockville Housing Enterprises in the acquisition of an apartment development to preserve mixed-income affordable rentals in the City of Rockville. The following table presents the annual obligations under the note.

Table 21
Annual Note Obligations

<u>Year</u>	<u>Payment Amount</u>
2014	\$ 500,000
2015	500,000
2016	<u>500,000</u>
Total	<u>\$ 1,500,000</u>

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Capital Improvements Program and Future Financing

Capital investments involve Issuer projects which normally have long useful lives. Items included within a CIP are usually defined within one of the following six categories:

1. The acquisition of land for a public purpose.
2. The construction of a significant facility, e.g., a building or a road, or the addition to or extension of an existing facility.
3. Nonrecurring rehabilitation or major repair to all or a part of a facility, such as infrequent repairs that are not considered to be recurring maintenance, provided the total cost is more than \$100,000.
4. Any specific planning, engineering study, or design work related to an individual project falling within the three preceding categories.
5. Any long-term project funded through a grant where the establishment of a CIP project is a condition of the grant, regardless of the amount of funding per fiscal year.
6. A significant one-time investment in tangible goods of any nature, the benefit of which will accrue over a multi-year period. Examples include items such as large initial investments in technology improvements or the purchase of a new telephone system over \$100,000.

The recommended CIP includes five years of projected capital needs. The first year of the program becomes the capital budget for which project money will be appropriated. The remaining four years of the CIP will serve as a financial plan for capital investments.

From fiscal year 2013 to fiscal year 2017, the Issuer anticipates constructing approximately \$40,400,000 of capital improvement projects that will be supported by General Fund Sources.

The following table presents a summary of the Issuer's 2013 through 2017 Capital Financing Plan.

Table 22
Capital Financing Plan
(000s)

	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>
Funds Needed for Capital Projects	\$ 11,929	\$ 7,888	\$ 6,500	\$ 6,371	\$ 7,730
Sources of Funds (projected)					
External (other governments or private contributions)	\$ 4,606	\$ 300	\$ --	\$ --	\$ --
Bond Issues	--	--	--	--	--
Pay As You Go	3,900	4,500	5,000	5,000	5,000
Interest	<u>10</u>	<u>7</u>	<u>25</u>	<u>35</u>	<u>15</u>
Total Sources of Funds	<u>\$ 8,516</u>	<u>\$ 4,807</u>	<u>\$ 5,025</u>	<u>\$ 5,035</u>	<u>\$ 5,015</u>
Beginning Cash Balance	<u>12,156</u>	<u>8,743</u>	<u>5,663</u>	<u>4,187</u>	<u>2,851</u>
Ending Cash Balance	<u>\$ 8,743</u>	<u>\$ 5,662</u>	<u>\$ 4,187</u>	<u>\$ 2,851</u>	<u>\$ 136</u>

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Overlapping Debt

The Issuer shares local governing authority with Montgomery County. Montgomery County provides health, welfare, additional social services, mass transit, the public library system, and education within the City. Montgomery County also coordinates most of the fire and volunteer rescue services in the area.

Montgomery County is the only taxing jurisdiction overlapping the City which has the power to issue debt. The County's general obligation debt outstanding as of June 30, 2012 is presented in Table 23.

Table 23
Overlapping Debt

	<u>General Obligation Debt</u>	<u>Percentage Applicable to the Issuer</u>	<u>Amount Applicable to the Issuer</u>
Montgomery County	\$ 2,415,650,000	7.09% ⁽¹⁾	\$ 171,164,902

⁽¹⁾ Based on fiscal year 2012 assessed valuations reported by the State of Maryland Department of Assessments and Taxation.

Source: Montgomery County, Maryland preliminary official statement dated October 10, 2012.

Payment Record

The Issuer has never defaulted in the payment, when due, of principal or interest on any of its debt obligations nor has the Issuer failed to appropriate funds to pay when due its annual lease obligations.

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FINANCIAL INFORMATION

Financial Reporting Entity

In evaluating the Issuer as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) which may or may not fall within the Issuer's oversight and control. The specific factors which are addressed in determining which organizations to include in the entity are delineated below:

Manifestations of Oversight Responsibility
Selection of Governing Authority
Designation of Management
Ability to Significantly Influence Operations

Accountability for Fiscal Matters
Budgetary Authority
Responsibility for Debt
Financial Management
Revenue Characteristics

Additional factors which may significantly influence the definition of the reporting entity are:

Scope of Public Service
Special Financing Relationship

The relative importance of each criterion must be evaluated in light of specific circumstances. Although the decision to include or exclude a potential component unit is left to the professional judgment of responsible local officials, a positive response to any of the above criteria requires that the specific reasons for excluding the potential component unit be disclosed. Accordingly, listed below are all organizations for which there is at least one positive response with respect to the above criteria:

1. Included Within the Entity

None. It is important to note, however, that the pension plan, for which the Issuer acts in a trustee capacity, is included in the reporting entity.

2. Excluded from the Entity

Rockville Housing Enterprises. The Board of Directors is appointed by the Issuer. Once appointed, however, the directors of Rockville Housing Enterprises operate autonomously, with no authority being exercised over them by the Issuer. Rockville Housing Enterprises is responsible directly to the United States Department of Housing and Urban Development, rather than to any local jurisdiction. No financial interdependency, ability to significantly influence operations or accountability for fiscal matters exists between this entity and the Issuer.

Financial Reports

The City Charter specifies that the financial books and accounts of the Issuer must be audited annually by a certified public accountant. The auditor is required to examine all funds of the Issuer in accordance with generally accepted accounting standards.

The accounts of the Issuer are organized into funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenue and expenditures (or expenses, as appropriate). Government resources are allocated

to and accounted for in individual funds based upon the purposes for which they are to be expended and the means by which spending activities are controlled. The following fund types are used by the Issuer:

Governmental Funds – General Fund, Community Development Block Grant Fund, Special Activities Fund, Speed Camera Fund, Debt Service Fund and Capital Projects Fund;

Proprietary Funds – Water Facility Fund, Sanitary Sewer Fund, Refuse Fund, Storm Water Management Fund, Parking Fund, and RedGate Golf Course Fund;

Fiduciary – Pension Trust Fund.

The modified accrual basis of accounting is followed by the governmental funds, as well as the “financial flow measurement focus.” Under this method of accounting, revenue is recorded when susceptible to accrual, i.e. when measurable and available for the funding of current appropriations.

Copies of the Issuer's Comprehensive Annual Financial Reports (CAFR) for the years ended June 30, 2008 through 2012, the Fiscal Year 2002 through 2013 Adopted Operating Budgets and Capital Improvements Program are available at the Issuer's website www.rockvillemd.gov/government/finance.htm or upon request from the Issuer. Excerpts from the Issuer's 2012 CAFR are attached as Exhibit A to this Official Statement.

Budgeting and Accounting

The City Charter requires the City Manager to submit a budget to the Mayor and Council at least one month before the beginning of each fiscal year. In addition to the operating budget, a five-year capital improvements plan is presented for the Mayor and Council's review. Each department prepares its own budget request for the City Manager's review. The Mayor and Council schedule public hearings and publish advance notices of them. The budget is approved in the form of an appropriations ordinance. During the year, the City Manager has authority to transfer budgeted amounts between departments within any fund, but changes in the total appropriation level for a given fund can only be enacted by the Mayor and Council through a budget amendment ordinance.

The Issuer places continued emphasis on maintenance of an accounting system which provides strong internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. The internal controls in place in the Issuer are subject to continuous review by management officials and the Issuer's external auditors.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rockville, Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 2011. In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The City has been awarded the Certificate of Achievement for the past twenty-two years. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. See Appendix A for selected excerpts from the Issuer's 2012 comprehensive annual financial report.

The City has earned the GFOA Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2011. The City also received the GFOA's award Outstanding Achievement for the Popular Annual Financial Reporting (PAFR) for the fiscal year 2011. This is the fourth year the City has received this award. The PAFR is specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in finance.

General Fund Revenue

For Fiscal Year 2012, the three largest sources of revenue to the Issuer were the property tax (52.8% of revenues), the Issuer's share of the earned income tax (16.3%) and charges for services (9.3%). The earned income tax is collected by the State of Maryland. Other significant sources of General Fund revenues are, Montgomery County's payment for Issuer services for which the County collects taxes, grants and other government revenue, licenses and permits, and the transient occupancy tax.

Historical Results of Operations

Statements of revenues and expenditures of the operating funds of the Issuer have been compiled from the Issuer's financial reports. They have been organized in such a manner as to facilitate year-to-year comparisons. Appendix A to this Official Statement presents excerpts from the Issuer's Comprehensive Annual Financial Report for the year ended June 30, 2012.

Table 24 below presents the adopted general fund budgets for the 2012 and 2013 fiscal years.

Table 24
Adopted Fiscal Year 2012
and 2013 General Fund Budgets

	<u>2013 Adopted</u>	<u>2012 Adopted</u>
Revenue		
Property Taxes	\$ 35,090,580	\$ 36,895,000
Revenue from Other Governments	16,060,490	14,816,000
Licenses and Permits	2,386,000	2,261,000
Charges for Services	6,104,240	6,132,610
Fines and Forfeitures	654,500	645,000
Use of Money and Property	239,600	405,900
Other Revenue	<u>4,770,290</u>	<u>4,887,370</u>
Total Revenue	<u>\$ 65,305,700</u>	<u>\$ 66,042,880</u>
Expenditures		
Personnel	\$ 42,189,890	\$ 41,606,320
Operating Expenditures	11,893,340	12,362,000
Capital Outlays	517,500	511,250
Other Charges	2,104,970	2,496,310
Contribution to CIP	3,900,000	3,967,000
Debt Service	<u>4,700,000</u>	<u>5,100,000</u>
Total Expenditures	<u>\$ 65,305,700</u>	<u>\$ 66,042,880</u>

Table 25 below presents the statements of revenues and expenditures of the Issuer's general fund for the fiscal years ended June 30, 2009 through 2012.

Table 25
General Fund Statement of Revenues and Expenditures
and Changes in the General Fund
(Years Ended June 30)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenue				
Property Taxes	\$ 35,030,305	\$ 34,412,039	\$ 35,454,838	\$ 34,526,050
Revenue from Other Governments:				
Income Taxes	10,785,534	11,048,348	10,306,947	10,438,811
Gas and Motor Vehicles	765,579	233,163	325,985	2,666,415
County Tax Duplication Payment	1,894,182	1,894,182	2,228,449	2,228,449
Admissions and Amusement Taxes	1,056,916	988,169	1,006,370	993,354
Grants and Other Governmental Revenues	1,591,199	1,587,574	1,531,670	1,474,451
Licenses and Permits	2,809,367	2,404,046	1,737,186	1,606,198
Charges for Services	6,141,471	5,932,617	5,766,551	5,473,187
Use of Money and Property	318,255	236,720	186,255	330,784
Fines and Forfeitures	850,554	766,882	687,733	648,478
Other Revenue	<u>5,113,254</u>	<u>5,766,946</u>	<u>2,735,757</u>	<u>2,451,550</u>
Total Revenue	\$ 66,356,616	\$ 65,270,686	\$ 61,967,741	\$ 62,837,727
Expenditures				
Current Operations:				
General Government	\$ 14,973,284	\$ 14,212,518	\$ 14,175,052	\$ 14,009,636
Community Development	4,025,134	3,949,854	3,866,116	3,827,609
Public Safety	9,269,045	9,038,079	8,540,236	8,119,346
Public Works	6,539,154	6,574,860	7,107,065	6,088,239
Recreation and Parks	19,355,661	19,412,181	19,245,099	18,532,862
Capital Outlay	<u>322,407</u>	<u>114,428</u>	<u>--</u>	<u>--</u>
Total Expenditures	\$ 54,484,685	\$ 53,301,766	\$ 52,933,568	\$ 50,577,692
Excess (Deficiency) of				
Revenue Over Expenditure	\$ 11,871,931	\$ 11,968,766	\$ 9,034,173	\$ 12,260,035
Other Financing Sources (Uses)				
Operating Transfers Out	<u>(14,629,075)</u>	<u>(12,526,375)</u>	<u>(7,402,266)</u>	<u>(13,706,324)</u>
Total Other Financing Sources (Uses)	\$ (14,629,075)	\$ (12,526,375)	\$ (7,402,266)	\$ (13,706,324)
Excess (Deficiency) of Revenue and Expenditures				
and Other Financing Sources (Uses)	(2,757,144)	(557,609)	1,631,907	(1,446,289)
Adjustment to Beginning Balance	(1,089,267)	29,226	51,566	--
Fund Balance at Beginning of Year				
as Previously Reported	\$ 14,760,466	\$ 15,288,849	\$ 13,605,376	\$ 15,051,665
Fund Balance at End of Year	\$ 10,914,055	\$ 14,760,466	\$ 15,288,849	\$ 13,605,376

PROPERTY VALUATIONS AND TAXES

Property Valuation

The assessment of real and tangible personal property for purposes of property taxation by state and local governmental units is the responsibility of the State Department of Assessment and Taxation. Assessment records and tax rolls are maintained in each county seat and in Baltimore City. One-third of the real property base is physically inspected and revalued once every three years. Any increase in full cash value arising from such reassessment is phased in over the ensuing three taxable years in equal annual installments, although a decline becomes effective the first year. Taxable assessed value is subject to statutory limits and annual increases for taxable assessed valuation are capped at 10% for existing residential property.

Property Tax Exemptions

Exemptions from State and local property taxation include real property owned by Federal, State, County and other governmental units, churches, schools, fraternal organizations, cemeteries, disabled veterans and the blind. The State Department of Assessments and Taxation grants exemptions from property taxes, pursuant to State law. Table 26 presents the Issuer's assessed value of all taxable property by class for the past five years.

Table 26
Assessed Value of All Taxable Property by Class

Year Ended <u>June 30</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>
2012	\$ 11,330,168,497	\$ 426,092,660	\$ 11,756,261,157
2011	11,495,912,704	434,487,416	11,930,400,120
2010	11,594,235,339	414,163,958	12,008,399,297
2009	11,117,285,215	398,207,920	11,515,493,135
2008	10,148,794,995	394,410,209	10,543,205,204

Property Tax Levies and Collections

Montgomery County levies real and personal property taxes on all taxable property within its boundaries. Taxes are due in full on July 1 and payable without penalty in equal installments on the following September 30 and December 31. Interest at the rate of 2/3 of 1% per month and penalty of 1% per month are charged on each delinquent installment; new tax bills may be paid within 30 days without interest or penalty. Tax sales are held on the second Monday in June in the fiscal year taxes are due and payable to recover delinquent real property taxes. Legal action may be taken to enforce payment of both real and personal property taxes.

Table 27 presents the tax levy and tax collections for the Issuer for each of the past five fiscal years.

Table 27
Property Tax Levies and Collections

Year Ended <u>June 30</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections and Adjustments⁽¹⁾</u>	<u>Total Tax Collection</u>	<u>Total Collection as Percent of Current Levy</u>
2012	\$ 33,366,584	\$ 33,108,151	99.23%	\$ (1,431,248)	\$ 31,676,903	94.94%
2011	32,361,767	32,177,932	99.43%	(530,451)	31,647,481	97.79%
2010	31,804,031	31,710,185	99.70%	1,139,217	32,849,402	103.29%
2009	36,589,554	35,685,475	97.53%	461,407	36,146,882	98.79%
2008	33,234,662	32,630,186	98.18%	126,255	32,756,441	98.56%

⁽¹⁾ Collections and adjustments are for all prior years.

Source: City of Rockville, Maryland Comprehensive Annual Financial Report.

Tax Rate Valuation

A single tax rate applies for each fiscal year to the assessed value of the taxable real and personal property. The rate is equal to the ratio of the amount to be raised per \$100 of assessed value. Personal property in Maryland has always been assessed at full value. State law requires that personal property shall be taxed at 2.5 times the real property rate if the personal property tax rate is not specifically set. For the fiscal year 2012, the Issuer's real property is taxed at the rate of \$0.292 per \$100 of assessed valuation and personal property is taxed at the rate of \$0.805 per \$100 of assessed valuation.

Table 28 presents the tax rates for all taxing jurisdictions in the Issuer for the last five fiscal years.

Table 28
Property Tax Rates⁽¹⁾
Overlapping Governments

<u>Year Ended</u> <u>June 30</u>	<u>Issuer</u>	<u>State</u>	<u>County⁽²⁾</u>	<u>Total</u>
2012	0.292	0.112	0.873	1.277
2011	0.292	0.112	0.834	1.238
2010	0.292	0.112	0.826	1.230
2009	0.292	0.112	0.818	1.222
2008	0.302	0.112	0.812	1.226

⁽¹⁾ Per \$100 of Assessed Value.

⁽²⁾ County tax rates include school levies.

Principal Taxpayers

A list of the 10 principal taxpayers in the Issuer for the fiscal year ended June 30, 2012 is presented in Table 29.

Table 29
Principal Taxpayers

<u>Name</u>	<u>Assessable Base</u>	<u>Percentage of Taxpayer Base to Total Assessable Base</u>
Rockville Town Square (CIM Group)	\$ 163,508,295	1.39%
King Farm Presbyterian Retirement	123,820,000	1.05%
Congressional Plaza Assoc LLC	122,970,199	1.05%
King Farm Apartments	115,168,787	0.98%
Realty Associates	103,953,298	0.88%
Boston Prop LTD Partnership	95,923,801	0.82%
Congressional Village Assoc LLC	95,630,900	0.81%
Brandywine Research LLC	83,003,280	0.71%
Tower-Dawson LLC	74,593,659	0.63%
Congressional Towers	<u>65,674,859</u>	0.56%
	<u><u>\$ 1,044,247,078</u></u>	

Source: State of Maryland Department of Assessments and Taxation.

FINANCIAL ADVISOR

The Issuer has retained Public Financial Management, Inc., of Minneapolis, Minnesota, as financial advisor (the “Financial Advisor”) in connection with the issuance of the Obligations. In preparing the Official Statement, the Financial Advisor has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the Issuer to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Obligations.

Requests for information concerning the Issuer should be addressed to Public Financial Management, Inc., 800 Nicollet Mall, Suite 2710, Minneapolis, Minnesota 55402 (612/338-3535, 612/338-7264 fax).

RATINGS

The Obligations are rated “Aaa” by Moody's Investors Service, Inc. and “AAA” by Standard and Poor’s. A rating is subject to withdrawal at any time; withdrawal of a rating may have an adverse effect on the marketability of the Obligations. For an explanation of the significance of the rating, an investor should communicate with the rating agency. The outstanding general obligation debt of the Issuer has been affirmed as “Aaa” by Moody's and “AAA” by Standard & Poor’s.

TAX MATTERS

Federal Income Tax

In the opinion of Bond Counsel, under existing law, the interest on the Obligations (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes).

Under the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), there are certain requirements that must be met subsequent to the issuance of the Obligations in order for the interest on the Obligations to remain excludable from gross income for federal income tax purposes, including restrictions that must be complied with throughout the term of the Obligations. Such restrictions include, among other things, limitations on the yield of investments acquired with gross proceeds of the Obligations and the periodic payment to the United States of specified portions of arbitrage profit derived from such investments.

In order to comply with the requirements of the Code, the Issuer has made covenants and agreements that are designed to satisfy the requirements of Section 103 and Sections 141 through 150, inclusive, of the Code, and the income tax regulations issued thereunder. In the opinion of Bond Counsel, these covenants and agreements are sufficient to meet the requirements (to the extent applicable to the Obligations) of Section 103 and Sections 141 through 150 of the Code. However, Bond Counsel assumes no responsibility for, and will not monitor, compliance with these covenants and agreements. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Obligations from becoming includable in gross income for federal income tax purposes retroactively to the date of issue.

Under the Code, in calculating corporate alternative minimum tax, a corporation is required to increase its alternative minimum taxable income by 75 percent of the amount by which its “adjusted current earnings” exceed its alternative minimum taxable income (computed without regard to this current earnings adjustment and the alternative tax net operating loss deduction). For this purpose, “adjusted current earnings” would include, among other items, interest on the Obligations. In addition, the Code imposes a branch-level tax on certain earnings and profits of foreign corporations operating branches in the United States, and such earnings and profits would include interest on the Obligations.

Other federal income tax consequences may arise from ownership of the Obligations, and in connection therewith, attention is directed to the following provisions of the Code: (a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Obligations or, in the case of a financial institution, that portion of a holder’s interest expense allocated to interest on the Obligations, (b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Obligations, (c) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on obligations such as the Obligations, and (d) for S corporations having subchapter C earnings and profits, the receipt of certain amounts of passive investment income, which includes interest on the Obligations, may result in the imposition of income tax on such passive investment income and, in some cases, loss of S corporation status.

A Bond will be considered to have been issued at a premium if, and to the extent that, the holder’s tax basis in the Bond exceeds the amount payable at maturity (or, in the case of a Bond callable prior to maturity, the amount payable on the earlier call date). The holder will be required to reduce his tax basis in the Bond for purposes of determining gain or loss upon disposition of the Bond by the amount of amortizable bond premium that accrues (determined on a constant yield method) during the period of ownership. No deduction (or other tax benefit) is allowable in respect of any amount of amortizable bond premium on the Obligations.

The initial public offering price of some of the Obligations may be less than the amount payable on those Obligations at maturity. The excess, if any, of the amount payable at maturity of a Bond over the initial public offering price (plus accrued interest from the dated date of the Bond to the date of initial delivery of the Bond) at which a substantial amount of the same maturity of the Obligations was sold constitutes original issue discount (“OID”) for Federal income tax purposes. The full amount of OID will accrue over the term of a Bond in accordance with a constant yield method (using semiannual compounding) which allocates smaller portions of OID to earlier semiannual compounding periods and larger portions of OID to later semiannual compounding periods. In the case of an original or a subsequent holder of a Bond, the amount of OID which is treated as having accrued with respect to such Bond during the period that the holder has held it (a) is not included in the gross income of the holder for Federal income tax purposes, and (b) is included in the cost basis of the holder in determining, for Federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). Holders of Obligations should consult their tax advisors with respect to the determination, for Federal income tax purposes, of OID accrued upon the sale, redemption or payment at maturity of the Obligations.

Prospective purchasers of the Obligations should consider possible state and local, excise, or franchise tax consequences arising from original issue discount on the Obligations. In addition, prospective corporate purchasers of the Obligations should consider possible federal income tax consequences arising from original issue discount on the Obligations under the alternative minimum tax and the branch profits tax described above.

Legislative proposals presently before Congress or that are introduced after issuance and delivery of the Obligations, if enacted, could alter or amend one or more of the federal tax matters referred to above and/or adversely affect the market value of the Obligations. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that any such proposal would not apply to Obligations issued prior to the enactment of such proposal. Accordingly, prospective purchasers of the Obligations should consult with their tax advisors as to the status and potential effect of such proposals.

The Internal Revenue Service (the “Service”) has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for Federal income tax purposes. If the Service does audit the Obligations, under current Service procedures, the Service will treat the Issuer as the taxpayer and the

owners of the Obligations will have only limited rights, if any, to participate in the audit process. Any action of the IRS, including but not limited to selection of the Obligations for audit, or the course or result of such an audit, or an audit of obligations presenting similar issues, may affect the market value and marketability of the Obligations. Bond Counsel's engagement with respect to the Obligations ends with the issuance of the Obligations and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer or owners of the Obligations regarding the tax status of interest thereon in the event of an audit examination by the IRS.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the Obligations, are in certain cases subject to information reporting for federal income tax purposes in a manner similar to that applicable to taxable obligations. Additionally, backup withholding may apply to any such payments to any Obligation holder who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Obligation owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. These reporting and backup withholding requirements do not in and of themselves affect or alter the excludability of such interest from gross income for federal tax purposes or any other federal tax consequences of purchasing, holding or selling tax-exempt obligations.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete. Prospective purchasers and holders of the Obligations should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

Maryland State and Local Income Tax

In the opinion of Bond Counsel, under existing law of the State of Maryland, the interest on the Obligations and the profit realized from the sale or exchange of the Obligations is exempt from income taxation by the State of Maryland or by any of its political subdivisions; but no opinion is expressed as to estate or inheritance taxes or any other taxes not levied or assessed directly on the Obligations or the income therefrom.

Interest on the Obligations may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Prospective purchasers of the Obligations should consult their tax advisors with respect to the state and local tax consequences of owning the Obligations and regarding the taxable status of the Obligations in a particular state or local jurisdiction other than the State of Maryland.

CERTIFICATION

The Issuer will furnish a statement to the effect that this Official Statement, to the best of its knowledge and belief as of the date of sale and the date of delivery, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statement made herein, in light of the circumstances under which they were made, not misleading.

NO LITIGATION

There is no litigation now pending or, to the knowledge of Issuer Officials, threatened which questions the validity of the Obligations or of any proceedings of the Issuer taken with respect to the issuance or sale thereof.

LEGAL MATTERS

All matters incident to the authorization and issuance of the Obligations are subject to the approval of Venable LLP, Baltimore, Maryland, Bond Counsel. The form of the approving legal opinion is attached hereto as Appendix B. Bond Counsel has not participated in the preparation of this Official Statement, except for the section entitled “Tax Matters.” The factual and financial information appearing herein has been supplied or reviewed by certain officials of the Issuer and its certified public accountants, as referred to herein, and Bond Counsel expresses no opinion as to the accuracy or sufficiency thereof.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and are not representations of fact, and no representation is made that any of the estimates will be realized.

This Official Statement has been approved by the Issuer for distribution by the Chief Financial Officer to prospective purchasers of the Obligations.

MAYOR AND COUNCIL OF ROCKVILLE, MARYLAND

By: /s/ Mr. Gavin Cohen
Chief Financial Officer

APPENDIX A

**Excerpts from the Comprehensive
Annual Financial Report
Year Ended June 30, 2012**

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CITY OF ROCKVILLE, MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2012

LIST OF ELECTED AND APPOINTED OFFICIALS

MAYOR

Phyllis Marcuccio

COUNCIL MEMBERS

John F. Hall, Jr.
Bridget Donnell Newton

Tom Moore
Mark Pierzchala

CITY MANAGER

Barbara Matthews

ASSISTANT CITY MANAGER

Jennifer Kimball

CITY CLERK

Douglas Barber

CITY ATTORNEY

Debra Yerg Daniel

Note: Jennifer Kimball was the Acting City Manager at June 30, 2012

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Financial Section



Independent Auditors' Report

To the Honorable Mayor, Members of the City Council and City Manager
City of Rockville, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Maryland (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Public Employee Retirement System information, and Budgetary Comparison Schedules information on pages 15 through 23, 61 through 63, 65, and 68 through 70, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

As described in Note (3)B to the basic financial statements, an error was noted which resulted in the restatement of prior year balances.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Baltimore, Maryland
October 31, 2012

A handwritten signature in cursive script, reading "Cohn Reznick LLP".

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Rockville (the City), we offer readers of the City's financial statements a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 5-8 of this report and the financial statements beginning on page 25.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the current fiscal year by \$309,004,113 (net assets). That amount is net of a \$496,041 unrestricted deficit. The unrestricted deficit exists due to continued costs of improvements to the City's water and sewer infrastructure.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$43,368,731. Approximately 74.8% of this total amount, is reported as restricted. Balances restricted for debt service, capital projects and special revenue programming total \$2,922,709, \$22,033,630 and \$7,498,337 respectively.
- At the end of the current fiscal year, unassigned fund balances for the General Fund was \$9,904,002 or 15.0% of total General Fund budgeted revenues of \$65,985,070.
- The City's total bonded debt increased by \$4,627,302 or 3.5%, which includes a deferred loss of \$3,672,523 during the current fiscal year. Advance refunding bonds were issued for the parking garage activities and general obligation bonds were issued for water and sewer infrastructure projects.
- Interest on investment earnings earned by the City's general investment portfolio totaled \$55,475 for an average rate of return of 0.10%. The average daily investment portfolio was \$53,814,456.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The statement of net assets presents information on the City's assets and liabilities, with the difference between the two reported as net assets. Over time, fluctuations in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, CDBG, public safety, community development, public works, and recreation and parks. The business-type activities of the City include water, sewer, refuse, stormwater management, parking and golf course operations.

The government-wide financial statements can be found on pages 25-26 of this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Reconciliations are provided between the Governmental Fund Balance Sheet and the government-wide Statement of Net Assets and also between the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds and the government-wide Statement of Activities.

The City maintains six individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund, and Capital Projects Fund, as they are considered major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements on pages 66-67 of this report.

The City adopts an annual appropriated budget for its General Fund, Debt Service Fund and Non-Major Governmental Funds. Budgetary comparison statements can be found on pages 63, 65 and 68, respectively.

The governmental funds financial statements can be found on pages 27 and 29 of this report.

Proprietary funds. The City maintains six different enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, refuse, stormwater management, parking and golf course operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise financial statements provide separate information for the Water Facility, Sanitary Sewer, Refuse, Parking, Stormwater Management and the RedGate Golf Course, which are considered the major funds of the City. The Refuse and RedGate Golf Course Funds do not meet the requirements of a major fund, but management has elected to report these funds as major.

The enterprise funds financial statements and cash flows can be found on pages 31-34 of this report.

Fiduciary funds. The Pension Trust Fund is used to account for resources held for the benefit of parties outside the government. The Pension Trust Fund is not reflected in the government-wide financial statement because the resources of this fund are not available to support the City's own programs. The accounting used for the trust fund is much like that used for proprietary funds.

The Pension Trust Funds financial statements can be found on pages 35 and 36 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-59 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary comparison schedules for major governmental funds. Required supplementary information can be found beginning on page 61 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements along with budgetary comparison schedules can be found on pages 66 through 68 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time, changes in net assets serves as a useful indicator of a government's financial position. The City's overall assets exceeded all of its liabilities by \$309,004,113 at the close of the current fiscal year.

The largest portion of the City's net assets (89.7%) is reflected in its invested in capital assets (e.g., CIP and infrastructure), less any related debt used to acquire those assets that is still outstanding, excluding unspent business-type debt proceeds of \$4,198,833. The City uses these capital assets to provide services to residents; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Rockville's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
Current and Other Assets	\$ 51,579,636	\$ 40,322,092	\$ 14,918,931	\$ 12,908,393	\$ 66,498,567	\$ 53,230,485
Capital Assets	246,973,574	262,322,438	133,186,250	142,256,464	380,159,824	404,578,902
Total Assets	\$ 298,553,210	\$ 302,644,530	\$ 148,105,181	\$ 155,164,857	\$ 446,658,391	\$ 457,809,387
Long-term Liabilities	55,241,382	51,378,150	80,711,622	85,392,159	135,953,004	136,770,309
Other Liabilities	(2,672,049)	(3,211,221)	12,082,373	15,246,186	9,410,324	12,034,965
Total Liabilities	\$ 52,569,333	\$ 48,166,929	\$ 92,793,995	\$ 100,638,345	\$ 145,363,328	\$ 148,805,274
Net Assets:						
Invested in Capital Assets, Net of Related Debt	203,929,452	215,237,694	54,125,519	61,807,784	258,054,971	277,045,478
Restricted	38,820,595	32,454,676	-	-	38,820,595	32,454,676
Unrestricted	3,233,830	6,785,231	1,185,667	(7,281,272)	4,419,497	(496,041)
Total Net Assets	\$ 245,983,877	\$ 254,477,601	\$ 55,311,186	\$ 54,526,512	\$ 301,295,063	\$ 309,004,113

At the end of the current fiscal year, there is a \$496,041 deficit of unrestricted net assets. The City is able to report positive net asset balances for the City as a whole, as well as for its separate governmental and business-type activities, for the current fiscal year, with the exception of the Parking Fund.

The governmental activities invested in capital assets, net of related debt, increased by \$11,308,242 or 5.5%. Most of this increase is related to capital projects expenditures during the current fiscal year.

The business-type activities invested in capital assets, net of related debt, increased by \$7,682,265 or 14.2%. Several construction projects in the Water and Sanitary Sewer Funds were completed and capitalized in the current year.

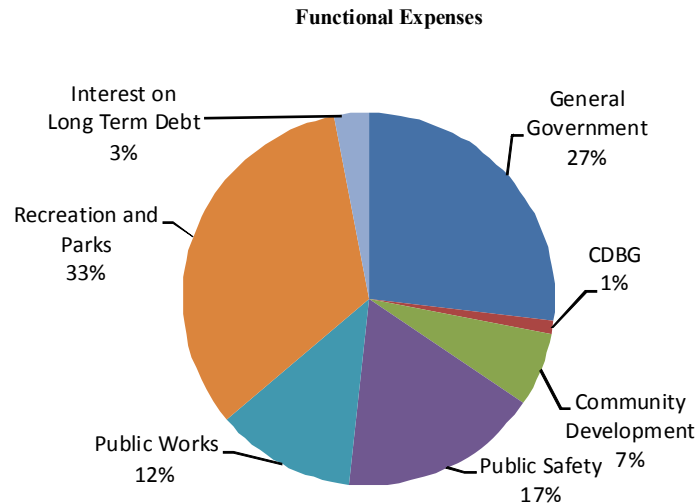
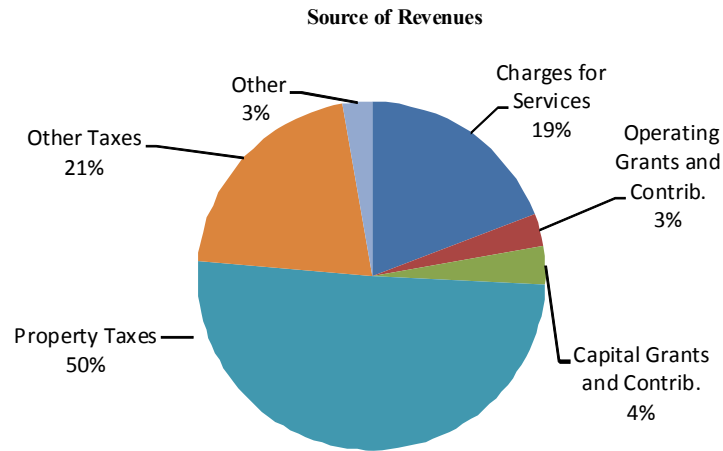
City of Rockville's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011*	2012*	2011*	2012	2011	2012
Revenues:						
Program revenues:						
Charges for services	\$ 12,070,988	\$ 13,415,305	\$ 29,278,846	\$ 28,406,279	\$ 41,349,834	\$ 41,821,584
Operating grants & contrib.	2,022,664	2,084,144	-	-	2,022,664	2,084,144
Capital grants & contrib.	1,124,980	2,470,347	-	731,284	1,124,980	3,201,631
General revenues:						
Property taxes	35,102,753	35,136,328	-	(60,328)	35,102,753	35,076,000
Other taxes	14,163,862	14,502,211	-	-	14,163,862	14,502,211
Other	2,814,259	1,921,465	14,289	9,416	2,828,548	1,930,881
Total Revenues:	\$ 67,299,506	\$ 69,529,800	\$ 29,293,135	\$ 29,086,651	\$ 96,592,641	\$ 98,616,451
Expenses:						
General government	\$ 14,835,922	\$ 16,721,358	\$ -	\$ -	\$ 14,835,922	\$ 16,721,358
CDBG	197,985	667,294	-	-	197,985	667,294
Community development	3,968,226	4,045,862	-	-	3,968,226	4,045,862
Public safety	10,882,743	10,725,725	-	-	10,882,743	10,725,725
Public works	7,402,630	7,473,069	-	-	7,402,630	7,473,069
Recreation and Parks	21,553,985	20,682,042	-	-	21,553,985	20,682,042
Interest on long term debt	1,814,951	1,847,089	-	-	1,814,951	1,847,089
Water	-	-	9,425,892	8,454,296	9,425,892	8,454,296
Sewer	-	-	7,149,860	7,462,498	7,149,860	7,462,498
Refuse	-	-	4,593,197	4,604,586	4,593,197	4,604,586
Parking	-	-	3,346,964	3,632,123	3,346,964	3,632,123
Stormwater management	-	-	2,373,398	2,564,028	2,373,398	2,564,028
Golf Course	-	-	1,431,459	938,164	1,431,459	938,164
Total Expenses:	\$ 60,656,442	\$ 62,162,439	\$ 28,320,770	\$ 27,655,695	\$ 88,977,212	\$ 89,818,134
Increase in net assets before transfers and contributions	6,643,064	7,367,361	972,365	1,430,956	7,615,429	8,798,317
Transfers and contributions	485,055	2,215,630	(485,055)	(2,215,630)	-	-
Increase/(Decrease) in net assets	7,128,119	9,582,991	487,310	(784,674)	7,615,429	8,798,317
Adjustments to restate net assets	394,107	(1,089,267)	(227,626)	-	166,481	(1,089,267)
Net assets - beginning, as previously reported	238,461,651	245,983,877	55,051,502	55,311,186	293,513,153	301,295,063
Net assets – ending	\$ 245,983,877	\$ 254,477,601	\$ 55,311,186	\$ 54,526,512	\$ 301,295,063	\$ 309,004,113

*2011 Restatements consisted of the following: 1) The beginning net assets of the Governmental Activities was restated by \$394,107 to record the beginning net pension asset; 2) The General Fund was restated by \$29,226 to record the transfer of certain activities from the Special Activities Fund (the net effect of this transaction was \$-0- to the Statement of Net Assets); 3) The Stormwater Management Fund was restated by (\$227,626) to correct loan proceeds inappropriately recorded as revenue.

*2012 Restatements consisted of the following: 1) The general fund was restated by (\$1,089,267) for retiree benefit expenses, previously unrecognized.

Governmental Activities For The Fiscal Year Ended June 30, 2012



Governmental activities. Governmental activities net assets were \$254,477,601 at the end of the fiscal year, an increase of \$8,493,724, or 3.5% over beginning net assets. Program revenues increased by \$2,751,164 (18%), including an increase of capital grants and contributions of \$1,345,367. General revenues decreased by \$520,870 (1.0%). Significant cost cutting measures taken across every department allowed for total revenues to exceed expenditures in the government-wide Statement of Activities.

Business-type activities. Business-type activities net assets were \$54,526,512 at the end of the fiscal year, a decrease of \$784,674, or 1.4% over beginning net assets. Revenues decreased by \$206,484 when compared to the previous fiscal year. This revenue source decrease is due to reduced charges for services and refunds of special taxing district property taxes paid in previous years. Expenses decreased \$665,075 when compared to the previous fiscal year. This decrease is partially due to the lease of RedGate Golf Course, which was previously managed internally. The decrease is also due to higher expenses in fiscal year 2011 related to repairs for a water main break.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's short term financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

All of the City's governmental funds continue to hold reserves above policy level. This is reflective of the strength of City finances as it continues to weather a slow economic recovery.

At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$43,368,731, a decrease of \$10,212,330 or 19.1% in comparison with the prior fiscal year. This decrease is due to significant capital outlay in the current year. The classifications of fund balance are \$499,301 as nonspendable, \$2,922,709 as restricted for debt service, \$22,033,630 as restricted for capital projects, \$7,498,337 as restricted for special revenue spending, and \$510,752 assigned for consulting services and other purposes.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance was \$9,904,002, of the total fund balance of \$10,914,055. This is a decrease of \$4,035,118 or 28.9% in comparison to the prior fiscal year. This planned decrease is a result of a transfer to the Capital Projects Fund of \$8,315,055.

The Debt Service Fund has a total fund balance of \$2,922,709, which is restricted for the payment of debt service. The planned decrease in fund balance was \$377,491 or 11.4%. This net decrease was due to current year principal payments.

The Capital Projects Fund has a total fund balance of \$22,033,630, which is restricted for construction of capital projects. The planned decrease in fund balance was \$6,153,402 or 21.8%. This decrease was due to increased capital outlay for three major facility construction projects: Police Station, Senior Center Expansion, Maintenance Yard.

Proprietary funds. The City's proprietary funds provide similar information found in the government-wide financial statements, but in more detail.

The City made two major changes in two of its Enterprise Funds during the year. Both changes will bolster the finances of the City enterprise operations.

In September 2011, through a 50 year capital lease, the City outsourced the operations and maintenance of its three downtown parking garages, to the developer of Rockville Town Square. In order to facilitate the lease, the City was required to defease its outstanding nontaxable debt and issue taxable bonds. Though the City retains responsibility for debt service, this transaction provides much needed relief to the City's General Fund, which is supporting the enterprise operations.

In January 2012, through a 10 year operating lease, the City outsourced the operations of the Red Gate Golf Course. This action will also provide relief to the General Fund, which was subsidizing the golf operations.

Overall, the results of the City's Enterprise Funds' operations are mixed, with some funds meeting reserve requirements, and others not. Temporary liquidity issues in the Water Facility and Sanitary Sewer Fund, due to the investment in infrastructure improvements, are being resolved through planned rate increases.

Unrestricted net assets of the Water Facility, Sanitary Sewer, Refuse, Parking, Stormwater Management, and RedGate Golf Course Funds at the end of the year amounted to (\$10,591,159), (\$3,844,286), \$3,415,714, \$664,528, \$2,924,167 and 149,764, respectively.

Fiduciary funds. The City's fiduciary funds provide information on the pension and post-employment health benefit trusts maintained by the City. These funds are not reported in the government-wide financial statements.

The net assets of the Pension Trust Funds and OPEB Trust Fund at the end of the year amounted to \$83,625,251 and \$3,152,577 respectively. Net assets increased in both funds as a result of investment performance and ongoing City contributions. The City made its full actuarially determined annual required contributions (ARC) for both funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended budget included a \$57,810 reduction in revenues from the original adopted budget primarily due to decreased revenue projections from property taxes combined with increases in other types of tax revenues. Operating expenses in the final amended budget included a \$296,902 reduction from the original adopted budget. The decrease is net of an increase of \$327,035 for reappropriation of fiscal year 2011 encumbrances.

Actual revenues were \$371,546 higher than the final amended budget. The increase includes higher than projected license and permit revenue and fines and forfeitures revenue of \$2,809,367 and \$850,554, respectively. Actual expenditures were \$1,015,923 less than the final amended budget. This decrease is a result of operating cost reductions across all programs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012 amounts to \$404,578,902 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways and bridges, and water and sewer improvements. The total increase in the City's investment in capital assets for the current fiscal year was \$24,419,078 or 6.4%.

Major capital asset events during the current fiscal year included the following:

- Construction continued on the renovation of the future location of the Police Station; construction costs at the end of the current fiscal year were \$6,322,624. The Police Station opened in September 2012.
- Improvements to the Senior Center continued; construction costs at the end of the current fiscal year were \$1,533,036. The new expanded facility opened to the public in June 2012.
- Modernization and expansion continued on the Gude Drive Facilities; construction costs at the end of the current fiscal year were \$3,931,713. The new vehicle maintenance facility opened in June 2012.
- Completion of several utility projects occurred in fiscal year 2012; construction costs for water and sewer system improvements were \$13,634,494.

City of Rockville's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
Land	\$ 7,843,832	\$ 7,843,832	\$ 2,058,940	\$ 2,058,940	\$ 9,902,772	\$ 9,902,772
Buildings	29,766,754	43,521,151	25,421,270	681,976	55,188,024	44,203,127
Improv. other than buildings	9,715,301	12,435,607	80,925,002	95,779,264	90,640,303	108,214,871
Machinery and Equipment	8,123,620	10,816,432	3,554,559	3,153,398	11,678,179	13,969,830
Infrastructure	96,329,326	162,078,271	-	-	96,329,326	162,078,271
Purchased Capacity	-	-	12,306,801	12,001,212	12,306,801	12,001,212
Construction in Progress	95,194,741	25,627,145	8,919,678	3,379,650	104,114,419	29,006,795
Capital lease, net	-	-	-	25,202,024	-	25,202,024
Total	\$ 246,973,574	\$ 262,322,438	\$ 133,186,250	\$ 142,256,464	\$ 380,159,824	\$ 404,578,902

Additional information on the City's capital assets can be found in Note (2) C on pages 44-45 of this report.

Long-term obligations. At the end of the current fiscal year, the City had total long term obligations of \$136,770,309, which is backed by the full faith and credit of the government. Governmental debt is repaid from tax revenues, and business-type debt is repaid from charges for services.

City of Rockville's Long Term Obligations

	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
General Obligation Bonds, net	\$ 51,009,300	\$ 47,084,744	\$ 79,847,004	\$ 84,647,513	\$ 130,856,304	\$ 131,732,257
Accrued Obligations for Compensated Balances	4,232,082	4,293,406	864,618	744,646	5,096,700	5,038,052
Total Long-Term Liabilities	\$ 55,241,382	\$ 51,378,150	\$ 80,711,622	\$ 85,392,159	\$ 135,953,004	\$ 136,770,309

The City's total bond principal outstanding increased by \$4,627,302 (3.5%) compared to the prior fiscal year, not including the impact of deferred losses on advance refundings. The key factor in this increase was the issuance of new debt in the current fiscal year. Compensated absences decreased by \$58,648 (1.1%) during the fiscal year.

The City has been awarded a "AAA" rating from Standard & Poor's and a "Aaa" rating from Moody's Investor Service for its general obligation debt.

Additional information on the City's long-term debt can be found in Note (2) E on pages 46-51 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Mayor and Council adopted the Fiscal Year 2013 (FY13) operating and capital budgets on May 21, 2012. The total operating budget for all funds equals \$107.1 million, a decrease of less than 0.1% from the previous year. The General Fund budget equals \$65 million, a decrease of 1.1%. The FY12 real property tax rate of \$0.292 per \$100 of assessed valuation remains the same for FY13. In addition to adopting the FY13 budget ordinance, the Mayor and Council also approved several ordinances and resolutions that set the utility rates. Those include:

- A stormwater utility rate of \$78.90 per equivalent residential unit (ERU). Each residential property will pay \$78.90 or one ERU per year, and each commercial property will pay \$78.90 multiplied by the number of ERUs measured on their property.
- Water usage rates of \$4.68 per 1,000 gallons for the first 12,000 gallons used in the quarter, \$6.73 per 1,000 gallons for the next 12,000 gallons used in the quarter, and \$7.23 per 1,000 gallons for usage beyond 24,000 gallons.
- Sewer rate of \$5.73 per 1,000 gallons.
- Refuse rate of \$372.00 per residential property per year.

An important aspect of utility rate setting for the fiscal year 2013 budget was the rate increase in the water, sewer and stormwater programs, which ensure the financial health of these operations. Mayor and Council adopt fiscal year 2013 rates and future rates to ensure rate stability and consistency for Rockville residents. Projected cash flow modeling reflects that the rates are sufficient to provide for ongoing operations, maintenance and repairs of systems, and investment in infrastructure improvements.

An important economic factor that directly impacts the City's budget is property assessments. During calendar year 2011, a number of City properties that had appealed past assessments were reassessed at lower levels, resulting in a decline in the taxable assessed value and a decline in tax revenue for FY 2012. In January 2012, approximately half of the City's properties were reassessed, resulting in a 4.0% decrease in the City's total real property taxable assessed value and a decline in real property tax revenue. The next round of property reassessments will take place in January 2013 and is expected to produce a further decline in total real property assessed value. The City has sufficient reserves and budget flexibility to address the decreased property tax revenues, including a forecast tax rate increase of 2 cents in fiscal year 2014.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Rockville's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 111 Maryland Avenue, City of Rockville, Rockville, Maryland, 20850.

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Basic Financial Statements

City of Rockville, Maryland

Statement of Net Assets June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Equity in pooled cash and cash equivalents	\$ 35,802,020	\$ 7,276,891	\$ 43,078,911
Property tax receivable, net	372,860	-	372,860
Accounts receivables, net	529,276	5,622,123	6,151,399
Due from other governments	1,606,642	-	1,606,642
Other assets	1,339,898	643	1,340,541
Unbilled assessments receivable	294,798	8,736	303,534
Net pension asset	376,598	-	376,598
Capital assets (net of accumulated depreciation):			
Land	7,843,832	2,058,940	9,902,772
Construction in progress	25,627,145	3,379,650	29,006,795
Buildings	43,521,151	681,976	44,203,127
Improvements other than buildings	12,435,607	95,779,264	108,214,871
Equipment	10,816,432	3,153,398	13,969,830
Infrastructure	162,078,271	-	162,078,271
Purchase capacity	-	12,001,212	12,001,212
Capital lease, net	-	25,202,024	25,202,024
Total Assets	\$ 302,644,530	\$ 155,164,857	\$ 457,809,387
Liabilities			
Current Liabilities:			
Accounts payable	\$ 3,031,696	\$ 2,665,256	\$ 5,696,952
Internal balances	(11,266,470)	11,266,470	-
Accrued liabilities	1,244,585	1,147,469	2,392,054
Unearned revenue	1,012,036	3,342	1,015,378
Retainages payable	658,702	140,887	799,589
Claims payable	627,765	-	627,765
Deposits and other liabilities	1,480,465	22,762	1,503,227
Noncurrent Liabilities:			
Due within one year:			
Compensated absences	3,134,186	543,590	3,677,776
Bonds payable and loan payable	3,674,145	5,091,434	8,765,579
Due in more than one year:			
Compensated absences	1,159,220	201,056	1,360,276
Bonds payable and loan payable	43,410,599	79,556,079	122,966,678
Total Liabilities	\$ 48,166,929	\$ 100,638,345	\$ 148,805,274
Net Assets			
Invested in capital assets, net of related debt	\$ 215,237,694	\$ 61,807,784	\$ 277,045,478
Restricted for:			
Debt service	2,922,709	-	2,922,709
Capital projects	22,033,630	-	22,033,630
Special revenue programming	7,498,337	-	7,498,337
Unrestricted	6,785,231	(7,281,272)	(496,041)
Total Net Assets	\$ 254,477,601	\$ 54,526,512	\$ 309,004,113

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Activities For The Fiscal Year Ended June 30, 2012

Functions / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 16,721,358	\$ 1,444,313	\$ -	\$ -	\$ (15,277,045)	\$ -	\$(15,277,045)
Community development block grant (CDBG)	667,294	-	667,014	-	(280)	-	(280)
Community development	4,045,862	2,180,079	161,735	-	(1,704,048)	-	(1,704,048)
Public safety	10,725,725	3,621,924	494,250	318,670	(6,290,881)	-	(6,290,881)
Public works	7,473,069	552,704	162,352	938,110	(5,819,903)	-	(5,819,903)
Recreation and parks	20,682,042	5,616,285	598,793	1,213,567	(13,253,397)	-	(13,253,397)
Interest long-term debt	1,847,089	-	-	-	(1,847,089)	-	(1,847,089)
Total governmental activities	\$ 62,162,439	\$13,415,305	\$ 2,084,144	\$ 2,470,347	\$ (44,192,643)	\$ -	\$(44,192,643)
Business-type activities:							
Water	8,454,296	9,585,771	-	121,500	-	1,252,975	1,252,975
Sewer	7,462,498	7,984,131	-	308,462	-	830,095	830,095
Refuse	4,604,586	5,934,886	-	-	-	1,330,300	1,330,300
Parking	3,632,123	1,566,651	-	301,322	-	(1,764,150)	(1,764,150)
Stormwater management	2,564,028	2,870,915	-	-	-	306,887	306,887
Golf course	938,164	463,925	-	-	-	(474,239)	(474,239)
Total business-type activities	\$ 27,655,695	\$28,406,279	\$ -	\$ 731,284	\$ -	\$ 1,481,868	\$ 1,481,868
Total primary government	\$ 89,818,134	\$41,821,584	\$ 2,084,144	\$ 3,201,631	\$ (44,192,643)	\$ 1,481,868	\$(42,710,775)
General revenues:							
	Property taxes				\$ 35,136,328	\$ (60,328)	\$ 35,076,000
	Income taxes				10,785,534	-	10,785,534
	Gas and motor vehicle taxes				765,579	-	765,579
	County tax duplication payment				1,894,182	-	1,894,182
	Admissions and amusement taxes				1,056,916	-	1,056,916
	Use of money and property				347,043	9,416	356,459
	Other revenue				1,574,422	-	1,574,422
	Transfers and Contributions				2,215,630	(2,215,630)	-
	Total general revenues and transfers				\$ 53,775,634	\$ (2,266,542)	\$ 51,509,092
	Change in net assets				9,582,991	(784,674)	8,798,317
	Adjustments to restate net assets				(1,089,267)	-	(1,089,267)
	Net assets - beginning, as previously reported				245,983,877	55,311,186	301,295,063
	Net assets – ending				\$ 254,477,601	\$54,526,512	\$309,004,113

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Balance Sheet Governmental Funds June 30, 2012

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in pooled cash and cash equivalents	\$ 2,443,343	\$ 2,922,421	\$ 23,721,888	\$ 6,714,368	\$ 35,802,020
Property taxes receivable, net	372,860	-	-	-	372,860
Accounts receivable, net	529,276	-	-	-	529,276
Interfund receivable	11,365,400	-	-	-	11,365,400
Due from other governments	1,239,152	-	1,486	366,004	1,606,642
Other assets	500,987	288	1,426	837,197	1,339,898
Unbilled assessments receivable	-	294,798	-	-	294,798
Total assets	<u>\$ 16,451,018</u>	<u>\$ 3,217,507</u>	<u>\$ 23,724,800</u>	<u>\$ 7,917,569</u>	<u>\$ 51,310,894</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 1,744,988	\$ -	\$ 1,032,468	\$ 254,240	\$ 3,031,696
Interfund payable	-	-	-	98,930	98,930
Accrued liabilities	992,676	-	-	-	992,676
Deferred revenue	372,860	294,798	-	-	667,658
Unearned revenue	1,012,036	-	-	-	1,012,036
Retainages payable	-	-	658,702	-	658,702
Deposits and other liabilities	1,414,403	-	-	66,062	1,480,465
Total liabilities	<u>\$ 5,536,963</u>	<u>\$ 294,798</u>	<u>\$ 1,691,170</u>	<u>\$ 419,232</u>	<u>\$ 7,942,163</u>
Fund balances					
Nonspendable:					
Inventory	\$ 276,037	\$ -	\$ -	\$ -	\$ 276,037
Advances	223,264	-	-	-	223,264
Restricted for:					
Debt service	-	2,922,709	-	-	2,922,709
Capital projects	-	-	22,033,630	-	22,033,630
Special revenue programming	-	-	-	7,498,337	7,498,337
Assigned for:					
Consulting services	232,460	-	-	-	232,460
Other purposes	278,292	-	-	-	278,292
Unassigned:	9,904,002	-	-	-	9,904,002
Total fund balance	<u>\$ 10,914,055</u>	<u>\$ 2,922,709</u>	<u>\$ 22,033,630</u>	<u>\$ 7,498,337</u>	<u>\$ 43,368,731</u>
Total liabilities and fund balance	<u>\$ 16,451,018</u>	<u>\$ 3,217,507</u>	<u>\$ 23,724,800</u>	<u>\$ 7,917,569</u>	<u>\$ 51,310,894</u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activities June 30, 2012

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balances - governmental funds	\$	43,368,731
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of capital assets	321,747,296	
Accumulated depreciation	<u>(59,424,858)</u>	262,322,438

Deferred revenues are not financial resources in the governmental funds, therefore the liability is eliminated and total net assets are increased	667,658
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The net pension asset related to governmental activities does not represent current financial resources and is not reported in the governmental funds	376,598
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities as of year-end consist of:

Compensated absences	4,293,406	
General obligation bonds payable and issuance costs	47,084,744	
Accrued interest on the general obligation bonds	251,909	
Claims payable	<u>627,765</u>	<u>(52,257,824)</u>

Total net assets - governmental activities	\$	<u>254,477,601</u>
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City of Rockville, Maryland

Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds For the Fiscal Year Ended June 30, 2012

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenue					
Property Taxes	\$ 35,030,305	\$ -	\$ -	\$ -	\$ 35,030,305
Assessments	-	315,123	-	-	315,123
Revenue from other governments:					
Community development block grant	-	-	-	667,014	667,014
Income taxes	10,785,534	-	-	-	10,785,534
Gas and motor vehicles taxes	765,579	-	-	-	765,579
County tax duplication payment	1,894,182	-	-	-	1,894,182
Admission and amusement taxes	1,056,916	-	-	-	1,056,916
Grants and other governmental revenue	1,591,199	-	1,403,656	136,649	3,131,504
Licenses and permits	2,809,367	-	-	-	2,809,367
Charges for services	6,141,471	-	-	-	6,141,471
Use of money and property	318,255	3,386	19,997	5,405	347,043
Fines and forfeitures	850,554	-	-	2,059,181	2,909,735
Other revenue	5,113,254	-	936,554	1,129,768	7,179,576
Total revenue	<u>\$ 66,356,616</u>	<u>\$ 318,509</u>	<u>\$ 2,360,207</u>	<u>\$ 3,998,017</u>	<u>\$ 73,033,349</u>
Expenditures					
Current operations:					
General government	\$ 14,973,284	\$ -	\$ -	\$ -	\$ 14,973,284
Community development block grant	-	-	-	667,294	667,294
Community development	4,025,134	-	-	-	4,025,134
Public safety	9,269,045	-	-	1,597,468	10,866,513
Public works	6,539,154	-	-	-	6,539,154
Recreation and parks	19,355,661	-	-	295,617	19,651,278
Capital outlay	322,407	-	16,828,664	1,315,484	18,466,555
Debt service	-	5,796,000	-	-	5,796,000
Total expenditures	<u>\$ 54,484,685</u>	<u>\$ 5,796,000</u>	<u>\$ 16,828,664</u>	<u>\$ 3,875,863</u>	<u>\$ 80,985,212</u>
Excess (deficiency) of revenue over expenditures	<u>\$ 11,871,931</u>	<u>\$ (5,477,491)</u>	<u>\$ (14,468,457)</u>	<u>\$ 122,154</u>	<u>\$ (7,951,863)</u>
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ 5,100,000	\$ 8,315,055	\$ 42,820	\$ 13,457,875
Transfers out	(14,629,075)	-	-	-	(14,629,075)
Total other financing sources (uses)	<u>\$ (14,629,075)</u>	<u>\$ 5,100,000</u>	<u>\$ 8,315,055</u>	<u>\$ 42,820</u>	<u>\$ (1,171,200)</u>
Net change in fund balances	\$ (2,757,144)	\$ (377,491)	\$ (6,153,402)	\$ 164,974	\$ (9,123,063)
Adjustments to beginning balance	(1,089,267)	-	-	-	(1,089,267)
Fund balances at beginning of year, as previously reported	14,760,466	3,300,200	28,187,032	7,333,363	53,581,061
Fund balances at end of year	<u>\$ 10,914,055</u>	<u>\$ 2,922,709</u>	<u>\$ 22,033,630</u>	<u>\$ 7,498,337</u>	<u>\$ 43,368,731</u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2012

Amounts reported for governmental activities in the Statement of Activities are different because:

Total net change in fund balances-total governmental funds	\$ (9,123,063)
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Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

This is the amount by which capital outlays of \$18,466,555 exceeded depreciation of \$3,106,661.	15,359,894
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In the Statement of Activities, only the gain/loss on the disposition of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by costs of the capital assets disposed of (\$380,713) less accumulated depreciation of \$369,683.

	(11,030)
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Repayment of bonds principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

	3,924,556
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Because the deferred revenue will not be collected for several months after the City's fiscal year ends, it is not considered "available" revenue in the governmental funds. Deferred revenue increased in the current fiscal year.

	106,023
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The net pension asset relates to funding for future retiree benefit payments, which are not considered current. The net pension asset decreased in the current fiscal year.

	(8,655)
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Expenses for claims are recognized only when paid using current financial resources in the governmental fund statements. In the Statement of Activities, the expenses are recognized when the City is made aware of its liability for claims payments due. This fiscal year, the City became partially self-insured resulting in new claims payable.

	(627,765)
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In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This fiscal year, vacation and sick leave earned of \$1,967,568 exceeded amounts used of \$1,906,244.

	(61,324)
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as interest accrues, regardless of when it is due. The increased interest reported in the Statement of Activities is the result of accrued interest on the financing agreements.

	24,355
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Change in net assets of governmental activities	
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	<u>\$ 9,582,991</u>
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City of Rockville, Maryland

Statement of Net Assets Proprietary Funds June 30, 2012

Business-Type Activities - Enterprise Funds

	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Parking Fund	Stormwater Mgmt. Fund	RedGate Golf Course Fund	Total Business-type Activities
Assets							
Current Assets							
Equity in pooled cash and cash equivalents	\$ -	\$ -	\$ 2,572,544	\$ 1,260,243	\$ 3,279,205	\$ 164,899	\$ 7,276,891
Accounts receivable, net	1,941,862	1,702,673	1,304,864	672,724	-	-	5,622,123
Other receivables	-	-	194	175	274	-	643
Total current assets	<u>\$ 1,941,862</u>	<u>\$ 1,702,673</u>	<u>\$ 3,877,602</u>	<u>\$ 1,933,142</u>	<u>\$ 3,279,479</u>	<u>\$ 164,899</u>	<u>\$ 12,899,657</u>
Noncurrent Assets							
Unbilled assessments receivable	4,529	4,207	-	-	-	-	8,736
Total noncurrent assets	<u>\$ 4,529</u>	<u>\$ 4,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,736</u>
Capital Assets:							
Land	123,202	-	-	-	842,697	1,093,041	2,058,940
Utility plant and equip	63,339,979	72,650,628	6,261,213	61,080	9,192,873	3,169,455	154,675,228
Construction in progress	3,325,208	-	-	-	54,442	-	3,379,650
Less-accumulated depreciation	(25,413,518)	(24,300,394)	(4,032,196)	(55,080)	(2,712,811)	(1,824,832)	(58,338,831)
Purchased capacity, long-term	-	15,279,453	-	-	-	-	15,279,453
Capital lease, net	-	-	-	25,202,024	-	-	25,202,024
Total capital assets	<u>\$41,374,871</u>	<u>\$ 63,629,687</u>	<u>\$ 2,229,017</u>	<u>\$ 25,208,024</u>	<u>\$ 7,377,201</u>	<u>\$ 2,437,664</u>	<u>\$ 142,256,464</u>
Total assets	<u>\$43,321,262</u>	<u>\$ 65,336,567</u>	<u>\$ 6,106,619</u>	<u>\$ 27,141,166</u>	<u>\$10,656,680</u>	<u>\$ 2,602,563</u>	<u>\$ 155,164,857</u>
Liabilities							
Current Liabilities							
Bonds payable within 1yr	\$ 2,032,561	\$ 1,756,078	\$ 375,000	\$ 785,000	\$ 117,992	\$ 24,803	\$ 5,091,434
Accounts payable	1,115,998	106,217	108,094	1,057,878	272,665	4,404	2,665,256
Interfund payable	6,725,203	4,541,267	-	-	-	-	11,266,470
Accrued liabilities	451,070	360,444	87,479	200,789	37,956	9,731	1,147,469
Compensated absences	232,002	77,294	194,409	7,261	32,624	-	543,590
Unearned revenue	2,342	-	-	-	-	1,000	3,342
Retainages payable	89,357	51,530	-	-	-	-	140,887
Deposits / other liabilities	22,762	-	-	-	-	-	22,762
Total current liabilities	<u>\$10,671,295</u>	<u>\$ 6,892,830</u>	<u>\$ 764,982</u>	<u>\$ 2,050,928</u>	<u>\$ 461,237</u>	<u>\$ 39,938</u>	<u>\$ 20,881,210</u>
Noncurrent Liabilities							
Compensated absences	85,809	28,588	71,906	2,686	12,067	-	201,056
Bonds payable	22,473,203	23,701,510	1,418,206	30,090,920	1,625,228	247,012	79,556,079
Total noncurrent liabilities	<u>\$22,559,012</u>	<u>\$ 23,730,098</u>	<u>\$ 1,490,112</u>	<u>\$ 30,093,606</u>	<u>\$ 1,637,295</u>	<u>\$ 247,012</u>	<u>\$ 79,757,135</u>
Total Liabilities	<u>\$33,230,307</u>	<u>\$ 30,622,928</u>	<u>\$ 2,255,094</u>	<u>\$ 32,144,534</u>	<u>\$ 2,098,532</u>	<u>\$ 286,950</u>	<u>\$ 100,638,345</u>
Net Assets							
Invested in capital assets, net of related debt	\$20,682,114	\$ 38,557,925	\$ 435,811	\$ (5,667,896)	\$ 5,633,981	\$ 2,165,849	\$ 61,807,784
Unrestricted	(10,591,159)	(3,844,286)	3,415,714	664,528	2,924,167	149,764	(7,281,272)
Total net assets	<u>\$10,090,955</u>	<u>\$ 34,713,639</u>	<u>\$ 3,851,525</u>	<u>\$ (5,003,368)</u>	<u>\$ 8,558,148</u>	<u>\$ 2,315,613</u>	<u>\$ 54,526,512</u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds For the Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds						Total
	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Parking Fund	Stormwater Mgmt. Fund	RedGate Golf Course Fund	Business-type Activities
Operating Revenue							
Charges for Services	\$ 9,516,914	\$ 7,968,169	\$5,470,363	\$ 1,452,130	\$ 2,870,415	\$ 439,874	\$ 27,717,865
Other Revenue	190,357	324,424	464,523	355,515	500	24,051	1,359,370
Total operating revenue	<u>\$ 9,707,271</u>	<u>\$ 8,292,593</u>	<u>\$5,934,886</u>	<u>\$ 1,807,645</u>	<u>\$ 2,870,915</u>	<u>\$ 463,925</u>	<u>\$ 29,077,235</u>
Operating Expenses							
Treatment and purification	2,529,929	-	-	-	-	-	2,529,929
Distribution	1,287,294	-	-	-	-	-	1,287,294
Collection and disposal	-	2,392,510	3,487,650	-	-	-	5,880,160
Customer billing, collection, operating expenses	2,508,093	2,456,730	1,118,732	2,507,295	2,881,353	871,434	12,343,637
Repairs and maintenance	132,368	104,202	563,768	7,037	23,591	13,100	844,066
Total operating expenses	<u>\$ 6,457,684</u>	<u>\$ 4,953,442</u>	<u>\$5,170,150</u>	<u>\$ 2,514,332</u>	<u>\$ 2,904,944</u>	<u>\$ 884,534</u>	<u>\$ 22,885,086</u>
Operating income (loss) before depreciation / amortization	3,249,587	3,339,151	764,736	(706,687)	(34,029)	(420,609)	6,192,149
Less - depreciation and amortization of bond (discount)/premium	(2,115,828)	(2,200,666)	(336,171)	(199,964)	(259,137)	(142,385)	(5,254,151)
Operating income (loss)	<u>\$ 1,133,759</u>	<u>\$ 1,138,485</u>	<u>\$ 428,565</u>	<u>\$ (906,651)</u>	<u>\$ (293,166)</u>	<u>\$ (562,994)</u>	<u>\$ 937,998</u>
Nonoperating Income (Expenses)							
Interest income	666	807	2,186	2,527	3,230	-	9,416
Interest expense	(890,894)	(855,460)	(85,515)	(950,552)	(10,937)	(9,945)	(2,803,303)
Other, net	-	-	-	(99,985)	-	-	(99,985)
Total nonoperating income	<u>\$ (890,228)</u>	<u>\$ (854,653)</u>	<u>\$ (83,329)</u>	<u>\$ (1,048,010)</u>	<u>\$ (7,707)</u>	<u>\$ (9,945)</u>	<u>\$ (2,893,872)</u>
Income (loss) before transfers	<u>243,531</u>	<u>283,832</u>	<u>345,236</u>	<u>(1,954,661)</u>	<u>(300,873)</u>	<u>(572,939)</u>	<u>(1,955,874)</u>
Transfers							
Transfer (to) from Proprietary Funds	450,970	(311,490)	(139,480)	-	-	-	-
Transfer from General Fund	-	-	41,200	500,000	-	630,000	1,171,200
Total transfers	<u>\$ 450,970</u>	<u>\$ (311,490)</u>	<u>\$ (98,280)</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 630,000</u>	<u>\$ 1,171,200</u>
Increase (decrease) net assets	694,501	(27,658)	246,956	(1,454,661)	(300,873)	57,061	(784,674)
Net assets - beginning of year	<u>\$ 9,396,454</u>	<u>\$34,741,297</u>	<u>\$3,604,569</u>	<u>\$ (3,548,707)</u>	<u>\$ 8,859,021</u>	<u>\$ 2,258,552</u>	<u>\$ 55,311,186</u>
Net assets - end of year	<u><u>\$10,090,955</u></u>	<u><u>\$34,713,639</u></u>	<u><u>\$3,851,525</u></u>	<u><u>\$ (5,003,368)</u></u>	<u><u>\$ 8,558,148</u></u>	<u><u>\$ 2,315,613</u></u>	<u><u>\$ 54,526,512</u></u>

City of Rockville, Maryland

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds						Total Business-type Activities
	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Parking Fund	Stormwater Mgmt. Fund	RedGate Golf Course Fund	
Cash Flows from operating activities:							
Cash received from customers	\$ 9,509,062	\$ 8,048,506	\$ 6,020,335	\$ 1,693,332	\$ 3,017,232	\$ 435,570	\$ 28,724,037
Cash payments to suppliers for goods and services	(3,247,726)	(3,468,606)	(2,854,433)	(1,317,721)	(1,193,394)	(422,520)	(12,504,400)
Cash payments to employees for services	(3,349,595)	(1,462,968)	(2,348,037)	(232,985)	(1,685,149)	(660,893)	(9,739,627)
Net cash provided by (used in) operating activities	\$ 2,911,741	\$ 3,116,932	\$ 817,865	\$ 142,626	\$ 138,689	\$ (647,843)	\$ 6,480,010
Cash Flows from noncapital financing activities:							
Transfer in from the General Fund	\$ -	\$ -	\$ 41,200	\$ 500,000	\$ -	\$ 630,000	\$ 1,171,200
Transfer (to)from Proprietary Funds	450,970	(311,490)	(139,480)	-	-	-	-
Interfund payable	972	1,837,844	-	-	-	-	1,838,816
Net cash provided by noncapital financing activities	\$ 451,942	\$ 1,526,354	\$ (98,280)	\$ 500,000	\$ -	\$ 630,000	\$ 3,010,016
Cash Flows from capital and related financing activities:							
Acquisition and construction of capital assets	\$(3,661,834)	\$(9,100,289)	\$ -	\$ 269,000	\$(294,393)	\$ -	\$(12,787,516)
Principal paid on general obligation bond maturities	(1,902,027)	(1,450,143)	(375,000)	(750,000)	(117,992)	(24,803)	(4,619,965)
Interest paid on general obligation bonds	(894,159)	(852,487)	(86,800)	(981,387)	(10,535)	(10,162)	(2,835,530)
Advance refunding payments to escrow	-	-	-	(31,284,161)	-	-	(31,284,161)
Proceeds from issuance of debt	3,089,033	6,758,826	-	30,727,250	-	-	40,575,109
Proceeds (including interest) from special assessments	5,304	807	-	-	-	-	6,111
Net cash (used in) provided by capital and related financing activities	\$(3,363,683)	\$(4,643,286)	\$(461,800)	\$(2,019,298)	\$(422,920)	\$(34,965)	\$(10,945,952)
Cash Flows from investing activities:							
Interest on investments	\$ -	\$ -	\$ 2,125	\$ 2,515	\$ 3,169	\$ -	\$ 7,809
Net increase (decrease) in cash and cash equivalents	\$ -	\$ -	\$ 259,910	\$(1,374,157)	\$(281,062)	\$(52,808)	\$(1,448,117)
Cash and cash equivalents at the beginning of year	\$ -	\$ -	\$ 2,312,634	\$ 2,634,400	\$ 3,560,267	\$ 217,707	\$ 8,725,008
Cash and cash equivalents at the end of year	\$ -	\$ -	\$ 2,572,544	\$ 1,260,243	\$ 3,279,205	\$ 164,899	\$ 7,276,891

City of Rockville, Maryland

Statement of Cash Flows (continued) Proprietary Funds For the Year Ended June 30, 2012

Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

	Business-Type Activities - Enterprise Funds						Total Business-type Activities
	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Parking Fund	Stormwater Mgmt. Fund	RedGate Golf Course Fund	
Operating (loss) income	<u>\$ 1,133,759</u>	<u>\$ 1,138,485</u>	<u>\$ 428,565</u>	<u>\$ (906,651)</u>	<u>\$ (293,166)</u>	<u>\$ (562,994)</u>	<u>\$ 937,998</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation and amortization	\$ 2,115,828	\$ 2,200,666	\$ 336,171	\$ 199,964	\$ 259,137	\$ 142,385	\$ 5,254,151
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(198,520)	(243,178)	85,449	(114,613)	146,317	2,543	(322,002)
Increase (decrease) in accounts payable	(116,524)	(31,934)	(61,356)	956,320	68,550	(36,759)	778,297
Increase (decrease) in accrued liabilities	14,154	16,498	11,843	70	7,652	(10,702)	39,515
Increase (decrease) in compensated absences	(748)	10,702	17,193	5,383	(5,384)	(147,118)	(119,972)
Increase (decrease) in deferred revenue	-	-	-	-	-	(30,898)	(30,898)
Increase (decrease) in retainages payable	(36,519)	26,602	-	1,853	(44,417)	(4,300)	(56,781)
Increase (decrease) in deposits and other liabilities	311	(909)	-	300	-	-	(298)
Total adjustments	<u>\$ 1,777,982</u>	<u>\$ 1,978,447</u>	<u>\$ 389,300</u>	<u>\$ 1,049,277</u>	<u>\$ 431,855</u>	<u>\$ (84,849)</u>	<u>\$ 5,542,012</u>
Net cash provided by (used in) operating activities	<u><u>\$ 2,911,741</u></u>	<u><u>\$ 3,116,932</u></u>	<u><u>\$ 817,865</u></u>	<u><u>\$ 142,626</u></u>	<u><u>\$ 138,689</u></u>	<u><u>\$ (647,843)</u></u>	<u><u>\$ 6,480,010</u></u>
Noncash capital and related financing activities activities:							
Purchase of equipment on account	<u><u>\$ 469,540</u></u>	<u><u>\$ 41,536</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 66,903</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 577,979</u></u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Fiduciary Net Assets Pension Trust Funds June 30, 2012

	Pension Trust Funds	OPEB Trust Fund	Total Trust Funds
Assets			
Open End Mutual Funds:			
Bonds	\$ 23,322,341	\$ 1,094,366	\$ 24,416,707
Equities	45,764,312	1,685,792	47,450,104
Real Estate	7,795,682	-	7,795,682
Money Markets	6,742,916	372,419	7,115,335
Total	<u>\$ 83,625,251</u>	<u>\$ 3,152,577</u>	<u>\$ 86,777,828</u>
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Assets			
Held in trust for benefits	<u>\$ 83,625,251</u>	<u>\$ 3,152,577</u>	<u>\$ 86,777,828</u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Statement of Changes in Fiduciary Net Assets Pension Trust Funds For the Year Ended June 30, 2012

	Pension Trust Funds	OPEB Trust Fund	Total Trust Funds
Additions			
Contributions			
Employer	\$ 4,174,669	\$ 733,319	\$ 4,907,988
Plan Members	2,088,769	-	2,088,769
Total Contributions	<u>\$ 6,263,438</u>	<u>\$ 733,319</u>	<u>\$ 6,996,757</u>
Investment Income (loss)			
Net appreciation in the fair value of plan investments	224,577	37,063	261,640
Interest and dividends	62,568	28,841	91,409
Total investment income (loss)	<u>287,145</u>	<u>65,904</u>	<u>353,049</u>
Total	<u>\$ 6,550,583</u>	<u>\$ 799,223</u>	<u>\$ 7,349,806</u>
Deductions			
Benefits	\$ 4,491,046	\$ -	\$ 4,491,046
Refunds to terminated employees	19,378	-	19,378
Deaths	10,211	-	10,211
Administrative expense	348,904	28,818	377,722
Total Deductions	<u>\$ 4,869,539</u>	<u>\$ 28,818</u>	<u>\$ 4,898,357</u>
Net Increase	\$ 1,681,044	\$ 770,405	\$ 2,451,449
Net assets - beginning	81,944,207	2,382,172	84,326,379
Net assets - ending	<u>\$ 83,625,251</u>	<u>\$ 3,152,577</u>	<u>\$ 86,777,828</u>

See accompanying notes to the basic financial statements.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Rockville (the "City"), was incorporated in 1860. Its legal authority is derived from Article XI E of the State Constitution and Article 23A of the Annotated Code of Maryland. The City has an estimated population of 62,243 and a land area of 13.50 square miles. According to the 2010 census, the City is the third largest city in Maryland. The City has operated under the council-manager form of government since 1948. The City is a municipal corporation where the City Council is comprised of a mayor and four at-large council members. Services provided include water, sewer, refuse, parking, streets and stormwater, recreation and parks, police, planning and zoning, and engineering services. Schools, libraries, social services, and fire protection are provided by Montgomery County, Maryland.

For financial reporting purposes, the government-wide financial statements include the various departments governed directly by the Mayor and Council. The City's officials are also responsible for appointing the board of directors of the Rockville Housing Enterprises (RHE), but the City's accountability does not extend beyond making the appointments, therefore the finances of RHE are not included in the financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all the nonfiduciary activities of the primary government. Mostly all the effects of interfund activities have been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities. Business-type activities rely significantly on fees and charges for financing.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, although the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns on the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resource measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are deemed collectible within the current period or soon thereafter to pay the liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or for fines and forfeitures, if legally enforceable by a court.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Expenditures generally are recorded when a liability is incurred, under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due. Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* is used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The government reports the following major proprietary funds:

The City operates six major types of enterprise funds: The Water Facility Fund, the Sanitary Sewer Fund, the Refuse Fund, the Parking Fund, the Stormwater Management Fund, and the RedGate Golf Course Fund. These funds account for the provision of water and sewer services, parking meter program, and storm water retention facilities to residents within the City's service area. The Refuse Fund and RedGate Golf Course Fund do not meet the requirements of a major fund, however management has elected to report these funds as major. The Refuse Fund accounts for trash collections and recycling. The RedGate Golf Course Fund accounts for the operating and capital costs for the City's golf course facility.

Additionally, the government reports the following fund types:

The City's Pension Trust Funds accounts for the contributions made by the City and its employees to finance future pension and post-employment benefit payments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, but interfund services provided and used are not eliminated in the process of consolidation.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services, producing goods and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Facility, Sanitary Sewer, Refuse, and Stormwater Management Funds are charges to customers for sales and services. The Water Facility and Sanitary Sewer funds also recognize the portion of tap fees intended to recover the cost of connecting new customers to the system as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to first use restricted resources, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

To facilitate effective management of the City's resources, substantially all operating cash is combined in one pooled account. The Pension Trust Fund assets are separately managed by the City's retirement board. The Pension Trust Fund investments are stated at fair value. Short-term investments of one year or less which are included in the City's equity in pooled cash and cash equivalents are stated at amortized cost plus accrued interest. These short-term investments include mutual funds.

For purposes of the Statement of Cash Flows, the proprietary fund type reflects all monies in the City's cash management pool as cash equivalents.

Interest income earned on City investments is allocated among the funds each month on a pro-rata basis in accordance with average equity in pooled cash balances for the previous six months.

2. Property Taxes

Taxes on real property and business personal property are levied on property values as assessed on January 1, billed on July 1, and payable either by September 30 or in two equal installments on September 30 and December 31. Montgomery County bills and collects property taxes for the City and remits the cash collections monthly. Property taxes are attached as an enforceable lien on the underlying properties as of the succeeding June 1 and are, thereafter, sold at public auction if deemed delinquent.

Real and personal property taxes are levied at rates enacted by the Mayor and Council in the annual budget ordinance on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rate of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public hearings.

The real property tax rate was \$0.292 per \$100 of assessed value and the personal property tax rate was \$.805 per \$100 of assessed value in fiscal year 2012. The City charges taxpayers interest (at the rate of 2/3 of 1 percent per month) and penalty (1 percent per month) on all overdue taxes.

3. Inventories and Prepaid Items

All City inventories (included in other assets in the governmental fund Balance Sheet) are maintained on a consumption basis of accounting and are valued at cost on a first-in, first-out basis and consist of either goods held for resale or goods and materials used in providing services. The classification of fund balance for the amounts of General Fund inventories is made to reflect the non-spendable nature of those amounts for appropriation in the General Fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(1) Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. *Restricted Net Assets*

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs. The Capital Projects Fund is used to account for resources used in the acquisition or development of capital assets. The Special Activities Fund is used to account for programs for which the funding sources specify the use of funds for a particular purpose.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Reservations of fund balance in the Capital Projects Fund for capital projects have been made to reflect the restriction of those amounts for appropriation in the Capital Projects Fund.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The capitalization threshold for infrastructure items is \$25,000. GASB 34 requires prospective reporting of all infrastructure assets acquired after June 30, 2002. It has also required that all infrastructure assets that were acquired after June 30, 1980 be reported for fiscal years beginning after June 15, 2006. The City is in compliance with this requirement and has previously capitalized infrastructure assets acquired after June 30, 2002.

Property, plant, and equipment of the primary government are depreciated over their useful lives using the straight-line method of depreciation in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The following are estimated useful lives:

Description	Lives (Years)
Buildings	30-50
Equipment	3-20
Furniture and fixtures	7-10
Automobiles and trucks	5-7
Water and sewer infrastructure	20-50
Stormwater management facilities	20-50
Purchased capacity	50

6. *Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused annual and sick leave benefits. All annual leave and sick leave is accrued when incurred in the government-wide and proprietary financial statements. An expenditure for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. *Long-Term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(1) Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Long-Term Obligations (Continued)

In the fund financial statements, the Debt Service Fund recognizes bond premiums and discounts, as well as bond issuance costs, in the period incurred. The face amount of debt issued is reported net of any bond premiums/discounts.

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The classification of fund balance in the Debt Service Fund for the amount of debt service due within one year is made to reflect the restriction for those amounts for appropriation in the Debt Service Fund.

8. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" or "interfund receivable/payable". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal Balances".

9. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance using classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the purpose for which the funds may be spent. The City adopted Government Accounting Standards Board Statement No. 54 (GASB 54) effective July 1, 2010. The designations of fund balances are made in accordance with GASB 54, and represent the intent of the City's administration to use fund balances for specific purposes in the future. Fund balance is reported in five components - nonspendable, restricted, committed, assigned and unassigned.

Nonspendable - Portion of net resources that cannot be spent either (a) because of their form or (b) because they must be maintained intact.

Restricted - Portion of net resources with imposed limitations set by either (a) creditors, grantors, contributors, or the laws and regulations of other governments or (b) laws through constitutional provisions or enabling legislation.

Committed - Portion of net resources with imposed limitations set at the highest level of decision making authority. Such authority includes ordinances of the Mayor and Council and the City's charter. Formal action at the same level of authority is required to remove such limitations.

Assigned - Portion of net resources intended for a specific use by the City, as determined by the designee of the Mayor and Council.

Unassigned - Portion of net resources in excess of the nonspendable, restricted, committed and assigned balances.

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds of \$4,198,833 attributable to business-type activities. Unspent debt proceeds of \$3,827,155 are attributable to governmental activities and are reported as restricted in the Capital Projects Fund. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations. When an expense is incurred for which both restricted and unrestricted net assets are available, the City will first apply restricted resources.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(2) Detailed Notes on All Funds

A. Equity in Pooled Cash and Cash Equivalents

The City maintains cash and an investment pool that is available for use by all of the City's funds, except the Pension Trust Fund. The City is restricted by State law to invest in any federally insured bank in the State of Maryland, federally insured savings and loan associations in the State of Maryland, or in the Maryland Local Government Investment Pool (MLGIP). The City primarily invests in the MLGIP.

As of June 30, 2012, the City had the following deposits and investments included as equity in pooled cash and cash equivalents in the Statement of Net Assets and the Statement of Fiduciary Net Assets:

Investment Type	Fair Value
Deposits	\$ 2,794,606
Maryland Local Government Pool (MLGIP)	40,284,305
	<hr/>
	\$ 43,078,911
Open End Mutual Funds	86,777,828
	<hr/>
Total Fair Market Value of Investments	<u><u>\$ 129,856,739</u></u>

Deposits:

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned. Maryland State Law prescribes that local government units, such as the City, must deposit its cash in banks which transact business in the State of Maryland. Such banks must also, secure any deposits in excess of the Federal Depository Insurance Corporation insurance levels with collateral whose market value is at the least equal to the deposits. As of June 30, 2012, all the City's deposits were either covered by federal depository insurance or covered by collateral held in the pledging banks trust department in the City's name.

Investments:

Credit Risk: The Mayor and Council of Rockville recognize that their authority to invest the public funds of the City derives from Section 6-222 of the State of Maryland's Finance and Procurement Article, as well as Article 95, Section 22-22N of the Annotated Code of Maryland. Authority to invest City funds in compliance and provisions of these State statutes is delegated to the Director of Finance. The City invests in Money Market Funds that are rated "AAA" by Standard and Poor's. All City investments must receive one of the highest ratings from at least one of the national recognized statistical organizations, except for obligations which are backed by full credit of the US Government, obligations of federal agency, or an instrument that has been issued in accordance with acts of Congress and unrated. The City also invests in the Maryland Local Government Investment Pool, which is under control of the Maryland State Treasurer's Office. The MLGIP is "AAA" by Standard and Poor's.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is minimized due to the fact that all authorized investments have a maximum allowable maturity of two years from the date of purchase as stated in section XII of the City's investment policy. The money market funds and open-end mutual funds are highly liquid with no fixed maturity and therefore do not expose the City to interest rate risk.

Custodial Credit Risk: Custodial credit risk for investments is the risk that in the event of failure of a depository financial institution or counterparty to a transaction, the City will not recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial credit risk at June 30, 2012.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(2) Detailed Notes on All Funds (Continued)

B. Receivables

Receivables as of the year ended June 30, 2012 for all of the City's individual funds are as follows:

Receivables	General	Debt Service	Capital Projects	Other Governmental Funds	Water	Sewer	Refuse	Parking	Stormwater Management	RedGate Golf Course	Total
Billed / Unbilled Accounts	-	-	-	-	1,949,058	1,715,508	1,312,988	-	185,855	-	\$ 5,163,409
Property Taxes Receivable	871,364	-	-	-	-	-	-	-	-	-	871,364
Accounts Receivable	529,276	-	-	-	-	-	-	969,788	-	-	1,499,064
Interfund Receivable	11,365,400	-	-	-	-	-	-	-	-	-	11,365,400
Due from Other Governments	1,239,152	-	1,486	366,004	-	-	-	-	-	-	1,606,642
Other Assets	500,987	288	1,426	1,081,093	-	-	194	175	274	-	1,584,437
Unbilled Assessments Receivable	-	294,798	-	-	4,529	4,207	-	-	-	-	303,534
Gross Receivables	14,506,179	295,086	2,912	1,447,097	1,953,587	1,719,715	1,313,182	969,963	186,129	-	22,393,850
Allowance for Uncollectibles	(498,504)	-	-	(243,896)	(7,196)	(12,835)	(8,124)	(297,064)	(185,855)	-	(1,253,474)
Net Receivables	\$14,007,675	\$ 295,086	\$ 2,912	\$ 1,203,201	\$ 1,946,391	\$ 1,706,880	\$ 1,305,058	\$ 672,899	\$ 274	\$ -	\$ 21,140,376

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounts to \$1,253,474 at June 30, 2012, and is composed of the following:

General Fund property taxes receivable	\$ 498,504
Other Governmental Funds violations receivable	243,896
Enterprise Funds meter violations receivable	297,064
Enterprise Funds utility bills receivable	28,155
Enterprise Funds stormwater management fees receivable	185,855
	<u>\$ 1,253,474</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue in the governmental funds were as follows:

Special assessments not yet due (Debt Service Fund)	Deferred	Unearned
Property taxes receivable (General Fund)	\$ 294,798	\$ -
Recreation services not earned (General Fund)	372,860	-
Total deferred/unearned revenue for governmental funds	<u>\$ 667,658</u>	<u>\$ 1,012,036</u>

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(2) Detailed Notes on All Funds (Continued)

C. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 7,843,832	\$ -	\$ -	\$ -	\$ 7,843,832
Construction in progress	95,194,741	12,144,584	-	(81,712,180)	25,627,145
Total capital assets, not being depreciated	<u>\$ 103,038,573</u>	<u>\$ 12,144,584</u>	<u>\$ -</u>	<u>\$ (81,712,180)</u>	<u>\$ 33,470,977</u>
Capital assets, being depreciated:					
Buildings	40,374,361	62,350	-	14,653,265	55,089,976
Improvements other than buildings	12,474,730	145,774	-	2,993,682	15,614,186
Equipment	17,725,724	1,796,710	(380,713)	2,177,945	21,319,666
Infrastructure	130,048,066	4,317,137	-	61,887,288	196,252,491
Total capital assets being depreciated	<u>\$ 200,622,881</u>	<u>\$ 6,321,971</u>	<u>\$ (380,713)</u>	<u>\$ 81,712,180</u>	<u>\$ 288,276,319</u>
Less accumulated depreciation for:					
Buildings	(10,607,607)	(961,218)	-	-	(11,568,825)
Improvements other than buildings	(2,759,429)	(419,150)	-	-	(3,178,579)
Equipment	(9,602,104)	(1,270,813)	369,683	-	(10,503,234)
Infrastructure	(33,718,740)	(455,480)	-	-	(34,174,220)
Total accumulated depreciation	<u>\$ (56,687,880)</u>	<u>\$ (3,106,661)</u>	<u>\$ 369,683</u>	<u>\$ -</u>	<u>\$ (59,424,858)</u>
Total capital assets, being depreciated, net	<u>143,935,001</u>	<u>3,215,310</u>	<u>(11,030)</u>	<u>81,712,180</u>	<u>228,851,461</u>
Governmental activities capital assets, net	<u>\$ 246,973,574</u>	<u>\$ 15,359,894</u>	<u>\$ (11,030)</u>	<u>\$ -</u>	<u>\$ 262,322,438</u>
Business-Type Activities:					
Capital assets, not being depreciated:					
Land	\$ 2,058,940	\$ -	\$ -	\$ -	\$ 2,058,940
Construction in progress	8,919,678	802,703	-	(6,342,731)	3,379,650
Capital lease, net	-	25,450,371	(248,347)	-	25,202,024
Total capital assets, not being depreciated	<u>\$ 10,978,618</u>	<u>\$ 26,253,074</u>	<u>\$ (248,347)</u>	<u>\$ (6,342,731)</u>	<u>\$ 30,640,614</u>
Capital assets, being depreciated:					
Buildings	31,799,127	-	(27,351,239)	-	4,447,888
Improvements other than buildings	121,233,454	12,616,726	-	6,342,731	140,192,911
Equipment	9,938,859	221,067	(125,497)	-	10,034,429
Purchased capacity	15,279,453	-	-	-	15,279,453
Total capital assets being depreciated	<u>\$ 178,250,893</u>	<u>\$ 12,837,793</u>	<u>\$ (27,476,736)</u>	<u>\$ 6,342,731</u>	<u>\$ 169,954,681</u>
Less accumulated depreciation for:					
Buildings	(6,377,857)	(154,533)	2,766,478	-	(3,765,912)
Improvements other than buildings	(40,308,452)	(4,105,195)	-	-	(44,413,647)
Equipment	(6,384,300)	(613,828)	117,097	-	(6,881,031)
Purchased capacity	(2,972,652)	(305,589)	-	-	(3,278,241)
Total accumulated depreciation	<u>\$ (56,043,261)</u>	<u>\$ (5,179,145)</u>	<u>\$ 2,883,575</u>	<u>\$ -</u>	<u>\$ (58,338,831)</u>
Total capital assets, being depreciated, net	<u>122,207,632</u>	<u>7,658,648</u>	<u>(24,593,161)</u>	<u>6,342,731</u>	<u>111,615,850</u>
Business-type activities capital assets, net	<u>\$ 133,186,250</u>	<u>\$ 33,911,722</u>	<u>\$ (24,841,508)</u>	<u>\$ -</u>	<u>\$ 142,256,464</u>

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(2) Detailed Notes on All Funds (Continued)

C. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:	
General Government	\$ 1,037,502
Community Development	20,728
Public Safety	83,752
Public Works	933,915
Recreation and Parks	1,030,764
Total depreciation expense - governmental activities	<u>\$ 3,106,661</u>
Business-Type Activities:	
Water	\$ 2,125,332
Sewer	2,205,247
Refuse	337,946
Parking	117,572
Stormwater Management	259,137
Golf Course	133,911
Total depreciation expense - business-type activities	<u>\$ 5,179,145</u>

D. Interfund Payables and Transfers

The interfund payables from various funds represent cash overdrafts that are payable to the General Fund within one year. The interfund payables as of June 30, 2012 consisted of the following:

	Interfund Payable Total
Governmental Funds:	
Community Development Block Grant Fund	\$ 98,930
Proprietary Funds:	
Water Facility Fund	6,725,203
Sanitary Sewer Fund	4,541,267
Total	<u>\$ 11,365,400</u>

The interfund transfers are used to provide resources from the General Fund to other funds, and occur in the normal course of business. Interfund transfers for the year ended June 30, 2012 consisted of the following:

Transfer To:	
Debt Service Fund	\$ 5,100,000
Capital Project Fund	8,315,055
Special Activities Fund	42,820
Refuse Fund	41,200
Parking Fund	500,000
RedGate Golf Course Fund	630,000
	<u>\$ 14,629,075</u>

Transfer from the General Fund to the Debt Service Fund represents resources to pay off general obligation bonds.
Transfer from the General Fund to the Capital Projects Fund represents the City's budgeted pay-as-you-go funding.
Transfer from the General Fund to the Special Activities Fund represents resources for Art in Public Architecture and the Rockville Emergency Assistance Fund Endowment.
Transfer from the General Fund to the Refuse Fund represents refuse pickup for Rockville Housing Enterprises.
Transfer from the General Fund to the Parking Fund represents resources to pay off general obligation bonds.
Transfer from the General Fund to the RedGate Golf Course Fund represents resources to fund operations.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(2) Detailed Notes on All Funds (Continued)

E. Long-Term Debt

General Obligation Bonds and Loan Payable

A loan was awarded to the City for \$998,100 from American Recovery and Reinvestment Act (ARRA) Funds through Maryland Department of the Environment (MDE) in December 2009. This is a revolving loan that was awarded to the City for improvements to Woodley Gardens Park, of which \$800,422 remain outstanding.

General obligation bonds are direct city obligations in which the full faith and credit of the government is pledged. These bonds generally are issued as 10-30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds and loans payable currently outstanding are as follows:

	Year of Issuance	Outstanding Principal	Interest Rate Range	Year of Final Maturity
Governmental Activities				
General Improvements	2003	\$ 5,558,683	2.00 - 3.85%	2023
General Improvements - Refunding	2003	152,629	2.00 - 3.00%	2013
General Improvements	2004	6,840,000	4.00 - 5.00%	2029
General Improvements	2005	9,015,000	3.50 - 6.00%	2025
General Improvements	2007	7,800,000	4.00 - 4.25%	2027
General Improvements	2011	16,520,000	2.00 - 4.10%	2031
General Improvements - Refunding	2011	1,198,432	2.00 - 3.00%	2021
Total Governmental Activities		<u>\$ 47,084,744</u>		
Business-Type Activities				
General Improvements	1999	\$ 1,183,355	3.21%	2019
General Improvements	2000	972,824	3.64%	2020
General Improvements	2002	2,086,550	1.90%	2023
General Improvements	2003	1,806,317	2.00 - 3.875%	2023
General Improvements - Refunding	2003	62,372	2.00 - 3.00%	2013
General Improvements	2004	2,110,000	4.00 - 5.00%	2029
General Improvements	2005	944,621	0.00%	2025
General Improvements	2005	10,350,000	3.50% - 6.00%	2036
General Improvements	2007	7,180,000	4.00 - 4.25%	2027
General Improvements	2008	9,820,000	3.00 - 4.50%	2028
Loan Payable	2010	800,422	1.00%	2031
General Improvements	2011	9,270,000	2.00 - 4.10%	2031
General Improvements - Refunding	2011	1,521,568	2.00 - 3.00%	2021
General Improvements	2012	9,835,000	2.00 - 3.375%	
General Improvements	2012	30,830,000	3.50 - 4.375%	
Total Business-Type Activities		<u>\$ 88,773,029</u>		

The City anticipates that all amounts required for payment of interest and principal on business-type activities debt will be provided from the respective fund's revenues; however, the bonds are further secured by the full faith and credit and unlimited taxing power of the City.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(2) Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

Unamortized bond discount is not included in outstanding principal for business-type activities. The outstanding principal consists of the following:

Business-type activities long-term outstanding debt	\$ 88,773,029
Business-type activities unamortized bond discount	(452,993)
Business-type deferred loss on advance refunding	(3,672,523)
	<u>\$ 84,647,513</u>

The City's future payments of long-term debt for governmental activities are as follows:

Governmental Activities			
Fiscal Year Ending June 30,	Principal	Interest	Total Principal and Interest
2013	3,674,145	1,736,450	5,410,595
2014	3,521,670	1,620,798	5,142,468
2015	3,521,670	1,498,708	5,020,378
2016	3,510,061	1,378,748	4,888,809
2017	3,507,858	1,252,515	4,760,373
2018	3,507,858	1,123,956	4,631,814
2019	3,503,452	996,065	4,499,517
2020	3,496,249	867,794	4,364,043
2021	3,494,359	738,671	4,233,030
2022	2,961,347	608,642	3,569,989
2023	2,956,902	493,988	3,450,890
2024	2,455,000	375,700	2,830,700
2025	1,885,000	274,507	2,159,507
2026	1,195,000	200,969	1,395,969
2027	1,195,000	154,400	1,349,400
2028	675,000	107,325	782,325
2029	675,000	81,675	756,675
2030	675,000	54,675	729,675
2031	674,173	27,675	701,848
Total	\$ 47,084,744	\$ 13,593,261	\$ 60,678,005

Notes to the Basic Financial Statements
June 30, 2012

(2) Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

The City's future payments of long-term debt for governmental activities are as follows:

Fiscal Year Ending June 30,	Business-Type Activities																
	Water Facility			Sanitary Sewer			Refuse		Parking		Stormwater Management		RedGate Golf Course		Total Principal and Interest		
	Principal	Interest		Principal	Interest		Principal	Interest		Principal	Interest		Principal	Interest		Principal	Interest
2013	2,032,561	847,882	1,756,078	878,181	375,000	71,900	785,000	1,424,991	117,992	9,528	24,803	9,418	8,333,334				
2014	2,014,834	786,842	1,723,527	825,380	375,000	56,900	820,000	1,393,591	111,648	9,070	24,804	8,674	8,150,270				
2015	2,022,289	723,199	1,718,527	770,864	365,000	41,900	800,000	1,360,791	111,655	8,607	24,803	7,930	7,955,565				
2016	2,040,118	660,245	1,710,136	717,949	345,000	27,400	705,000	1,332,041	112,124	8,140	24,804	7,156	7,690,113				
2017	2,053,332	589,132	1,707,339	662,228	340,000	13,600	735,000	1,302,079	112,596	7,671	24,804	6,349	7,554,130				
2018	1,881,943	517,620	1,702,339	604,605	-	-	1,180,000	1,270,841	113,070	7,192	24,803	5,505	7,307,918				
2019	1,550,964	453,449	1,696,744	547,796	-	-	1,160,000	1,223,641	113,554	6,711	24,803	4,637	6,782,299				
2020	1,373,966	402,205	1,693,947	487,618	-	-	1,210,000	1,177,241	114,040	6,225	24,803	3,744	6,493,789				
2021	1,240,350	354,670	1,691,151	427,246	-	-	1,255,000	1,128,841	114,529	5,734	24,804	2,827	6,245,152				
2022	1,244,157	313,063	1,529,518	366,723	-	-	1,305,000	1,078,641	115,026	5,239	24,803	1,896	5,984,066				
2023	1,243,036	272,159	1,525,301	312,626	-	-	1,360,000	1,026,441	115,529	4,738	24,618	954	5,885,402				
2024	1,035,000	229,425	1,380,000	257,104	-	-	1,405,000	978,841	116,033	4,232	-	-	5,405,635				
2025	1,035,000	189,950	1,245,000	198,973	-	-	1,455,000	926,856	101,129	3,721	-	-	5,155,629				
2026	860,000	149,400	900,000	160,010	-	-	1,510,000	871,566	44,396	3,205	-	-	4,498,577				
2027	860,000	115,594	900,000	127,573	-	-	1,575,000	811,166	44,915	2,684	-	-	4,436,932				
2028	855,000	81,619	595,000	94,940	-	-	1,635,000	746,591	45,445	2,158	-	-	4,055,753				
2029	380,000	47,044	595,000	75,010	-	-	1,705,000	678,739	45,975	1,627	-	-	3,528,395				
2030	380,000	33,200	595,000	54,141	-	-	1,775,000	607,129	46,510	1,090	-	-	3,492,070				
2031	375,000	19,163	595,000	32,854	-	-	1,855,000	532,579	47,054	548	-	-	3,457,198				
2032	150,000	5,063	335,000	11,306	-	-	1,930,000	454,669	-	-	-	-	2,886,038				
2033	-	-	-	-	-	-	2,010,000	372,644	-	-	-	-	2,382,644				
2034	-	-	-	-	-	-	2,095,000	287,219	-	-	-	-	2,382,219				
2035	-	-	-	-	-	-	2,190,000	195,563	-	-	-	-	2,385,563				
2036	-	-	-	-	-	-	2,280,000	99,752	-	-	-	-	2,379,752				
Total	\$ 24,627,550	\$ 6,790,924	\$ 25,594,607	\$ 7,613,127	\$ 1,800,000	\$ 211,700	\$ 34,735,000	\$ 21,282,453	\$ 1,743,220	\$ 98,120	\$ 272,652	\$ 59,090	\$ 124,828,443				

Note: Principal amounts do not include net unamortized bond (discount)/premium of \$125,454 for business-type activities.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(2) Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

The future payments for long-term debt are summarized as follows:

Fiscal Year Ending June 30,	Governmental Activities		Total Principal and Interest
	Principal	Interest	
2013	3,674,145	1,736,450	5,410,595
2014	3,521,670	1,620,798	5,142,468
2015 - 2019	17,550,899	6,249,992	23,800,891
2020 - 2024	15,363,857	3,084,795	18,448,652
2025 - 2029	5,625,000	818,876	6,443,876
2030 - 2031	1,349,173	82,350	1,431,523
Total	\$47,084,744	\$ 13,593,261	\$ 60,678,005

Business-Type Activities

Fiscal Year Ending June 30,	Water Facility		Sanitary Sewer		Refuse		Parking		Stormwater Management		RedGate Golf Course		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	2,032,561	847,882	1,756,078	878,181	375,000	71,900	785,000	1,424,991	117,992	9,528	24,803	9,418	8,333,334	
2014	2,014,834	786,842	1,723,527	825,380	375,000	56,900	820,000	1,393,591	111,648	9,070	24,804	8,674	8,150,270	
2015 - 2019	9,548,646	2,943,645	8,535,085	3,303,442	1,050,000	82,900	4,580,000	6,489,393	562,999	38,321	124,017	31,577	37,290,025	
2020 - 2024	6,136,509	1,571,522	7,819,917	1,851,317	-	-	6,535,000	5,390,005	575,157	26,168	99,028	9,421	30,014,044	
2025 - 2029	3,990,000	583,607	4,235,000	656,506	-	-	7,880,000	4,034,918	281,860	13,395	-	-	21,675,286	
2030 - 2034	905,000	57,426	1,525,000	98,301	-	-	9,665,000	2,254,240	93,564	1,638	-	-	14,600,169	
2035 - 2037	-	-	-	-	-	-	4,470,000	295,315	-	-	-	-	4,765,315	
Total	\$ 24,627,550	\$ 6,790,924	\$25,594,607	\$7,613,127	\$ 1,800,000	\$ 211,700	\$34,735,000	\$21,282,453	\$ 1,743,220	\$ 98,120	\$ 272,652	\$ 59,090	\$ 124,828,443	

Note: Principal amounts do not include net unamortized bond (discount)/premium of \$125,454 for business-type activities.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(2) Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

Defeasance of Debt

During the current fiscal year, the City issued \$30,830,000 of taxable general obligation advance refunding bonds with interest rates ranging from 3.5% to 4.375%. The proceeds were used to advance refund \$27,485,000 of outstanding 2004 and 2005 tax-exempt general obligation bonds which had interest rates ranging from 3.5% to 6.0%. The net proceeds of \$30,903,917 (after premiums of \$73,917) along with City funds of \$380,244 for a total of \$31,284,161 was deposited in an irrevocable trust to provide for future debt service payments on the refunded bonds. As a result, a portion of the 2004 and 2005 general obligation bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$3,799,161. This amount is being netted against the new debt and amortized over the life of the new refunding debt. The City advance refunded the Parking Fund portions of the tax-exempt 2004 and 2005 general obligation bonds related to the construction of parking garages and replaced the debt with taxable bonds in order to lease the parking garages to be operated by a privately owned corporation. The total debt service payments over the next 24 years will be increased by \$1,450,584 and results in an economic loss of \$1,546,768 (the difference between the present values of the debt service payments on the old and new debt).

At June 30, 2012 there are no bonds outstanding relating to general obligations that were accounted for within the governmental activities which are considered defeased.

Conduit Debt Obligations

From time to time, the City may issue Economic Revenue Development Bonds to provide financial assistance to private-sector entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

In February 2012, the City issued Economic Development Revenue Bonds totaling \$22,000,000 for the improvement of senior housing facilities owned and operated by a not-for-profit organization. The principal amount payable at June 30, 2012 totaled \$22,000,000.

Changes in Long-Term Liabilities

The following is a summary of changes in the City's long-term debt for the year ended June 30, 2012:

	Balance as of 6/30/11	Additions	Reductions	Net Amortization of Bond Discount/ Premium	Balance as of 6/30/12	Remaining Unamortized Bond (Discount) / Premium 6/30/12	Due within One Year
Governmental Activities							
General obligation bonds	\$ 50,918,770	\$ -	\$ (3,834,026)	\$ -	\$ 47,084,744		\$ 3,674,145
Loan payable-CELP	90,530	-	(90,530)	-	-	-	-
Accrued obligations for compensated absences	4,232,082	1,967,568	(1,906,244)	-	4,293,406	-	3,134,186
Governmental activity long-term liabilities	<u>\$ 55,241,382</u>	<u>\$ 1,967,568</u>	<u>\$ (5,830,800)</u>	<u>\$ -</u>	<u>\$ 51,378,150</u>	<u>\$ -</u>	<u>\$ 6,808,331</u>

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(2) Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

	Balance as of 6/30/11	Additions	Reductions	Net Amortization of Bond Discount/ Premium	Balance as of 6/30/12	Remaining Unamortized Bond (Discount) / Premium 6/30/12	Due within One Year
Business-type Activities							
General obligation bonds							
Water facility fund	\$23,594,142	\$ 3,085,000	\$ (1,902,027)	\$ (5,469)	\$ 24,771,646	\$ 144,096	\$ 2,032,561
Sanitary sewer fund	20,373,135	6,750,000	(1,450,143)	4,244	25,677,236	82,629	1,756,078
Refuse fund	2,185,001	-	(375,000)	(1,775)	1,808,226	8,226	375,000
Parking fund	32,061,697	30,830,000	(28,245,000)	(20,358)	34,626,339	(108,661)	785,000
Stormwater	1,861,212	-	(117,992)	-	1,743,220	-	117,992
RedGate golf course fund	296,542	-	(24,803)	77	271,816	(836)	24,803
Accrued obligations for compensated absences	864,618	316,843	(436,815)	-	744,646	-	543,590
Business-type activity long-term liabilities	<u>\$81,236,347</u>	<u>\$ 40,981,843</u>	<u>\$(32,551,780)</u>	<u>\$ (23,281)</u>	<u>\$ 89,643,129</u>	<u>\$ 125,454</u>	<u>\$ 5,635,024</u>

Notes:

- The compensated absences in the governmental activities will be paid out of the General Fund.
- The long-term debt balance as of 6/30/12 for business-type activities includes the cumulative net amortization of bond (Discount)/Premium in the amount of \$125,454

F. Operating Leases

The City entered into a ten year office lease which began on June 1, 2004, and expires on May 31, 2014. Total annual rent is \$94,800, with an annual rent increase of 3% for each year, thereafter. The City also has a five year office lease which began on June 1, 2008 and expires on May 31, 2013. Total annual rent is \$101,551 with an annual rent increase of 3% each year.

Fiscal Year	Rent Amount
2013	237,990
2014	127,404
Total	<u>\$ 365,394</u>

The City leased the Arts and Innovations Center to VisArts under a 20 year lease which began on August 1, 2007 and expires on June 30, 2027. The rental income for the months beginning August 1, 2007 through July 1, 2008 were abated and the base rent for that year was allocated over lease years 2009, 2010, and 2011. The City began receiving monthly income for this lease on August 1, 2008.

Fiscal Year	Rent Amount
2013	28,982
2014	29,851
2015	30,747
2016	31,669
2017 - 2027	417,782
Total	<u>\$ 539,031</u>

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(2) Detailed Notes on All Funds (Continued)

F. Operating Leases (Continued)

The City leased the Red Gate Golf Course under a 10 year lease which began on January 1, 2012 and expires on December 31, 2021. The lease agreement contains options for two additional 10 year periods and provisions for revenue sharing. The annual lease fee is \$12,000 for the first five calendar years, and \$24,000 for the remaining five calendar years under the initial ten year term. In accordance with the lease agreement, the lessee will be responsible for reimbursing the City for the annual long-term debt payments associated with the Red Gate Golf Course. During the current year, the City received total payments of \$6,000 for the prorated first year of the lease.

Fiscal Year	Rent Amount
2013	12,000
2014	12,000
2015	12,000
2016	12,000
2017 - 2022	126,000
Total	<u>\$ 174,000</u>

G. Capital Leases

The City leased the Town Center Parking Garages under a fifty year capital lease which began on September 1, 2011, and expires on August 31, 2061. The initial annual fixed minimum rent is \$300,000, with annual adjustments based on increases to the Consumer Price Index. The agreement specifies that the annual fixed minimum rent may not be less than the previous year and contains provisions for revenue sharing. Upon initial measurement, the net carrying value of the parking garages was less than the estimated future minimum lease payments, resulting in unearned income that will be recognized over the term of the capital lease. At June 30, 2012 the unearned income on the capital lease was \$1,750,261 and the lease receivable was \$26,952,285. Estimated future minimum lease payments and unearned income amortization is as follows:

Fiscal Year	Lease Amount	Unearned Income
2013	306,750	35,538
2014	313,652	35,538
2015	320,709	35,538
2016	327,925	35,538
2017 - 2061	25,683,249	1,608,109
Total	<u>\$ 26,952,285</u>	<u>\$ 1,750,261</u>

(3) Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters; and employee health benefits. The City carries insurance for worker's compensation, comprehensive general, automobile and professional liability, fire and theft, and the liability for errors, omissions and other selected areas that require coverage.

Beginning July 1, 2011 the City became partially self-insured with respect to worker's compensation. City management believes it is more economical to manage its risks internally and set aside assets for claim settlements. The City has a Self-Insured Retention (SIR) of \$250,000 per claim with an aggregate retention of \$1,000,000 for the policy year. The worker's compensation claims payable of \$627,765 reported at June 30, 2012 includes all claims for which information prior to the issuance of the financial statements indicates that it was probable that a liability had been incurred and that the loss could be reasonably estimated.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(3) Other Information (Continued)

A. Risk Management (Continued)

Changes in the claims liability amounts are as follows:

	Beginning of the Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2012	\$ -	\$ 670,132	\$ (42,367)	\$ 627,765

The City continues to carry commercial insurance for employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Prior Period Adjustment and Individual Fund Disclosure

The adjustment of the beginning net assets of the Governmental Activities in the government-wide Statement of Net Assets and the adjustment of the beginning fund balance of the Statement of Revenues, Expenditures and Changes in Fund Balance is to reflect post-employment retiree benefit expenses of \$1,089,267 previously unrecognized.

C. Commitments and Contingent Liabilities

Encumbrances

The following table lists the outstanding encumbrances at June 30, 2012. These encumbrances are reported in the financial statements based on the specific purpose of the resources that have been provided.

	Governmental Activities						
	General Fund	Debt Service	Capital Projects	Other Governmental Funds	Total		
Encumbrances Outstanding	\$ 510,752	\$ -	\$ -	\$ 464,153	\$ 974,905		
	Business-Type Activities						
	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Parking Fund	Stormwater Mgmt. Fund	RedGate Golf Course Fund	Total
Encumbrances Outstanding	\$ 28,887	\$ 126,494	\$ 2,631	\$ -	\$ 47,097	\$ -	\$ 205,109

General Fund – Of this amount, \$232,460 is assigned to consulting services.

Other Governmental Funds – Of this amount, \$350,012 is restricted for Channel 11 upgrades to Council chambers.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(3) Other Information (Continued)

C. Commitments and Contingent Liabilities (Continued)

Washington Suburban Sanitary Commission (WSSC)

The City has contracted with WSSC to upgrade and enhance a portion of the Blue Plains Waste Water Treatment Plant. Through June 30, 2012, the City had paid \$46,699,238 as its contractual share of the construction costs of the treatment facility and the related sewer transmission lines, which were recorded in capital assets. The City's remaining contribution through the completion of the project is estimated to be \$20,750,767 for treatment capacity. The City intends to issue bonds to fund most of these costs.

The City has no direct ongoing equity interest in WSSC's assets and liabilities. Furthermore, the City has no significant influence over the management of the treatment facilities. Accordingly, the City does not record this contractual arrangement as a joint venture.

In addition to the capacity cost described above, WSSC charges the City a portion of its operating costs for treatment of sewage. The City accrues an amount for these charges each year based on its best estimate of usage. Adjustments to the accrued charges, which result from subsequent billings by WSSC, are recorded in the period during which the final bill is received by the City.

Litigation

The City is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. The total amount of pending lawsuits and claims not covered by insurance nor expressly provided in these statements will not have an adverse impact on the City's financial condition.

D. Other Post-employment Benefits

In addition to the pension benefits described in Note 3E, the City provides other post-employment health benefits (OPEB). The pension plan, under the direction of the Retirement Board, authorizes a retiree who elects to stay with the City's policy group to receive from the City the employer's share (i.e., the same level of premium support given to current employees) of medical insurance premiums up until age 65. In the event a retiree establishes residency outside the geographic area served by the City's group health insurance carriers, that person may purchase coverage and receive reimbursement from the City in an amount not to exceed the prevailing two-person coverage employer rate granted to current employees.

The pension plan stipulates that eligible retirees from the administrative and union employee groups shall include those who (a) retire, having attained age 60 while employed with the City and who have completed at least 10 years of service prior to retirement, (b) take early retirement occasioned by poor health, having attained age 50 while employed with the City and having completed 10 years of service, or (c) take early retirement from the City when their age plus service equals or exceeds 85. Eligible police retirees are those who have met the conditions stated above or who have attained their normal retirement date on the first day of the month coinciding with or following the earlier of (a) the employee's 60th birthday or (b) the later of the employee's 51st birthday and completion of 25 years of credited service. Previously, the City financed the post employment health insurance benefits on a pay-as-you-go basis and expenditures for these insurance premiums were recorded in the General Fund. However, during fiscal year 2009, the City implemented GASB statements 43 and 45 and created a single-employer plan. The City established an irrevocable trust for administering the plan assets and paying health care costs on behalf of the participants.

During fiscal year 2012, 21 retirees received post employment health benefits. Expenditures of \$139,749 were incurred and were eligible for reimbursement by the trust. The City directly funded cash of \$733,319 of the Annual Required Contribution (ARC) of \$733,319. The \$139,749 of benefit expenses paid by the City, and not reimbursed by the trust, assists in improving the funded status of the plan. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(3) Other Information (Continued)

D. Other Post-employment Benefits (Continued)

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 733,319
Interest on net OPEB obligation	52,407
Adjustment to ARC	(38,854)
Annual OPEB cost (expense)	<u>746,872</u>
Contributions made	<u>(733,319)</u>
Increase in net OPEB obligation	13,553
Net OPEB obligation, beginning of year	<u>726,000</u>
Net OPEB obligation, end of year	<u><u>\$ 739,553</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending June 30, 2012 and the two preceding fiscal years, are presented below.

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2010	\$ 1,418,000	17.0%	\$ 772,719
2011	\$ 996,000	32.0%	\$ 1,451,719
2012	\$ 746,872	98.2%	\$ 739,553

The funded status of the plan as of July 1, 2011, the most recent actuarial date, is as follows:

Actuarial Valuation Date	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL) Entry Age	(A-B) Funded (Unfunded) AAL (FAAL)/UAAL	(A/B) Funded Ratio	(C) Covered Payroll	((A-B)/C) FAAL/UAAL as a percentage of Covered Payroll
July 1 2011	\$ 2,385,350	\$ 7,031,320	\$ (4,645,970)	33.9%	\$ 33,384,756	-13.9%

Actuarial Assumptions

Actuarial valuation date:	7/1/2011
Actuarial cost method:	Projected Unit Credit
Amortization period:	30 years (closed period as of July 1, 2008)
Amortization method:	Level percentage of pay
Asset valuation method:	Fair Value
Healthcare cost trends:	Medical and prescription drug trend rate applied to the 2011 valuation is 6.54%. The ultimate rate is 4.20%.
Investment rate of return:	7.22%
Inflation rate:	3.20%
Salary increase:	4.00%

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(3) Other Information (Continued)

E. Pension Plan

The City employees participate in one single-employer defined benefit pension plan and one defined contribution pension plan. The Retirement Board makes recommendations to Mayor and Council, which has the authority to establish and amend the benefit provisions of the pension plans including contribution requirements of the employees and employer.

The financial statements of the City's pension plans are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which contributions are due. City contributions to each plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The Principal Financial Group and Prudential Bank and Trust are administrators of the single-employer defined benefit plan and defined contribution plan, which was established and is administered by the City. The Rockville Employee Retirement System (ROCKERS) is considered part of the City reporting entity and is included in the City's financial reports as Pension Trust Funds. The plans do not issue separate financial statements.

The ROCKERS has a defined benefit option and a defined contribution option, which are reported as separate Pension Trust Funds.

Defined Benefit Option

This option is available to police employees, who participate 100 percent in the defined benefit option regardless of the date of employment, and non-police employees who were members of the plan as of April 14, 1986. All benefits vest after 10 years of credited service. An employee who retires at age 60 (age 65 for employees hired after July 1, 2011) or a police employee with the completion of 25 years of credited service regardless of age is entitled to an annual retirement benefit, payable monthly for life (120 payments are guaranteed), for union employees in an amount equal to 1.8 percent of his/her final average salary, for each year of credited service, for administrative personnel in an amount equal to 1.8 percent before April 1, 1996, and 2.0 percent on or after April 1, 1996, of his/her final average salary, for each year of credited service and for police personnel in an amount equal to the lesser of (a)(1) 2.0 percent of his/her final average earnings multiplied by his/her years of credited service prior to April 1, 2004, plus (2) 2.25 percent of his/her final average earnings multiplied by his/her years of credited service on or after April 1, 2004, or (b) 60 percent of his/her final average earnings. Final average salary for administrative personnel and union employees is computed as the average earnings over three consecutive years within the last 10 years of service which produces the highest average and for police employees the average annual earnings is computed as the average annual earnings during the final 60 months of employment with the City.

Covered police and pre-1986 non-police employees are required by statute to contribute a certain percent (4.2 percent for union, 5.2 percent for administrative and 8.5 percent for police) of their salaries to the plan. If an employee leaves covered employment or dies before 10 years of credited service (based upon a graduated vesting schedule of 50 percent after five years, up to 100 percent after 10 years of credited service), accumulated employee contributions plus credited interest thereon at the rate of 6 percent and a portion of the City's contribution (City contributions are deemed to be 150 percent of the employees contributions plus credited interest) are paid to the employee or designated beneficiary.

This option also is available to full-time, permanent, non-police employees hired on or after April 15, 1986. These employees also are covered by the defined contribution option described below. Employees are required to participate from the date of employment. Union employees are covered for an annual benefit equal to 1.0 percent of average salary and administrative personnel are covered for an annual benefit equal to 1.0 percent before April 1, 1996, and 1.2 percent on or after April 1, 1996, of average salary (as previously defined) for each year of credited service. Administrative personnel are required by statute to contribute 1.0 percent of their salaries to the plan starting April 1, 1996. Employees are fully vested after 10 years of service.

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(3) Other Information (Continued)

E. Pension Plan (Continued)

Defined Contribution Option

Full-time, permanent non-police employees hired on or after April 15, 1986, are required to participate in this option from the date of employment. The plan allows contributions up to a maximum of 5 percent of earnings. The employee contributions are matched \$.50 by the City for each \$1 contributed by the employee. The employee is fully vested in his/her employee contributions and investment earnings thereon. The City's contribution for each employee (City's contributions and investment earnings thereon) is fully vested after three years of credited service. Employees attaining the age of 60 become fully vested regardless of the number of years of credited service. Employees hired after July 1, 2011 become fully vested after attaining the age of 60 with ten years of credited service. The contributions made in fiscal year 2012 by plan members totaled \$1,290,171 and the City contributed \$611,565.

Membership in the defined benefit plan consisted of the following at April 1, 2011, the date of the actuarial valuation corresponding to the fiscal year ended June 30, 2012.

Retirees and beneficiaries receiving payments	184
Terminated plan members vested but not yet receiving payments	190
Active plan members	531
Total	<u>905</u>

Combining Statement of Changes in Fiduciary Net Assets Pension Trust Funds June 30, 2012

	Defined Contribution Option	Defined Benefit Option	OPEB Trust	Total Pension Trust Funds
<u>Additions</u>				
Contributions				
Employer	\$ 611,565	\$ 3,563,104	\$ 733,319	\$ 4,907,988
Plan members	1,290,171	798,598	-	2,088,769
Total contributions	<u>\$ 1,901,736</u>	<u>\$ 4,361,702</u>	<u>\$ 733,319</u>	<u>\$ 6,996,757</u>
Investment Income				
Net appreciation in the fair value of plan investments	(105,085)	329,662	37,063	261,640
Interest and dividends	62,568	-	28,841	91,409
Total investment income	<u>\$ (42,517)</u>	<u>\$ 329,662</u>	<u>\$ 65,904</u>	<u>\$ 353,049</u>
Total additions	<u>\$ 1,859,219</u>	<u>\$ 4,691,364</u>	<u>\$ 799,223</u>	<u>\$ 7,349,806</u>
<u>Deductions</u>				
Benefits	\$ 937,822	\$ 3,553,224	\$ -	\$ 4,491,046
Refunds to terminated employees	-	19,378	-	19,378
Deaths	10,211	-	-	10,211
Administrative expense	25,435	323,469	28,818	377,722
Total deductions	<u>\$ 973,468</u>	<u>\$ 3,896,071</u>	<u>\$ 28,818</u>	<u>\$ 4,898,357</u>
Net (decrease)/increase	885,751	795,293	770,405	2,451,449
Net assets - beginning	18,088,049	63,856,158	2,382,172	84,326,379
Net assets - ending	<u>\$ 18,973,800</u>	<u>\$ 64,651,451</u>	<u>\$ 3,152,577</u>	<u>\$ 86,777,828</u>

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(3) Other Information (Continued)

E. Pension Plan (Continued)

Combining Statement of Fiduciary Net Assets Pension Trust Funds June 30, 2012

	Defined Contribution Option	Defined Benefit Option	OPEB Trust	Total Pension Trust Funds
Assets				
Investments at fair value - equity in pooled pension trust	\$ 18,973,800	\$ 64,651,451	\$ 3,152,577	\$ 86,777,828
Liabilities	-	-	-	-
Net Assets				
Available for plan benefits	\$ 18,973,800	\$ 64,651,451	\$ 3,152,577	\$ 86,777,828

Funding Policy and Annual Pension Cost – Defined Benefit Plan

The actuarial required contribution and net pension obligation information for the year ended June 30, 2012 and the preceding two fiscal years is as follows:

Fiscal Year Ending June 30	Annual Pension Cost	Employer Contributions	Percentage Contributed	Net Pension Obligation (Asset)
2010	\$ 2,520,809	\$ 2,511,752	99.6%	\$ (394,107)
2011	\$ 3,487,096	\$ 3,478,242	99.7%	\$ (385,253)
2012	\$ 3,571,759	\$ 3,563,104	99.8%	\$ (376,598)

The development of the Net Pension Obligation for the year ended June 30, 2012 and the preceding two fiscal years is as follows:

	June 30, 2010	June 30, 2011	June 30, 2012
Annual required contribution (ARC)	\$ 2,511,752	\$ 3,478,242	\$ 3,563,104
Interest on net pension obligation (NPO)	(31,245)	(30,543)	(29,857)
Adjustment to ARC	40,302	39,397	38,512
Annual pension cost (expense)	2,520,809	3,487,096	3,571,759
Contributions made	(2,511,752)	(3,478,242)	(3,563,104)
Increase in net pension obligation (NPO)	9,057	8,854	8,655
Net pension obligation, beginning of year	(403,164)	(394,107)	(385,253)
Net pension obligation, end of year	\$ (394,107)	\$ (385,253)	\$ (376,598)

The schedule of funding progress for the year ended June 30, 2012 is as follows:

Actuarial Valuation Date April 1	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL) Entry Age	(A-B) Funded (Unfunded) AAL (FAAL)/UAAL	(A/B) Funded Ratio	(C) Covered Payroll	((A-B)/C) FAAL/UAAL as a percentage of Covered Payroll
2011	\$60,360,919	\$79,794,044	(\$19,433,125)	75.6%	\$33,384,756	-58.2%

City of Rockville, Maryland

Notes to the Basic Financial Statements June 30, 2012

(3) Other Information (Continued)

E. Pension Plan (Continued)

Historical data for the funding progress of the Defined Benefit Plan is presented as required supplementary information (RSI) following the notes to financial statements. This schedule presents multiyear trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities for benefits.

The employee contribution requirements for the plan are set by Mayor and Council, at the recommendation of the Retirement Board. The City's annual contribution is based on annual actuarial valuations. The City of Rockville bears the cost of administering the pension plan. In Plan Year 2011, the actuarially determined ARC was \$3,563,104 and the City contributed \$3,563,104. The ARC for plan year 2011 was paid in fiscal year 2012.

<u>Contribution rates</u>	
-City	Remaining Cost
-Plan members	4.20% - 8.50%
Annual pension cost	\$3,571,759
Contributions made	\$3,563,104
Actuarial valuation date	4/1/2011
Actuarial cost method	Entry age normal
Amortization method	Closed
Amortization period	20 years
<u>Asset valuation method</u>	
-Fixed income assets	Contract basis
-United States Stock	Five years smoothed market
<u>Actuarial assumptions</u>	
-Investment rate of return	7.50%
-Projected salary increases	3.88% - 8.10%
-Includes inflation at	2.00% - 3.00%
-Cost of living adjustment	0.00%

(4) New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that will impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City:

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34* is effective for financial statements for periods beginning after June 15, 2012. This statement will modify requirements for inclusion of reporting component units in the financial reporting entity and will clarify the reporting of equity in legally separate organizations.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* is effective for financial statements for periods beginning after December 15, 2011. This statement will supersede Statement No. 20 which allows the enterprise funds of an entity to elect to implement FASB statements and interpretations that do not conflict with GASB pronouncement, and will specify that enterprise funds may elect to implement FASB pronouncements that do not conflict with GASB pronouncements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* is effective for periods beginning after December 15, 2011. This statement will incorporate deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and rename that measure as net position, rather than net assets.

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APPENDIX B

Forms of Legal Opinions

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March 20, 2013

Mayor and Council of Rockville
Rockville, Maryland

Ladies and Gentlemen:

We have examined certified copies of the legal proceedings and other proofs submitted relative to the issuance and sale by Mayor and Council of Rockville, Maryland (the "Issuer") of \$15,945,000 General Obligation Bonds, Series 2013A, dated March 20, 2013 (the "Obligations"). The Obligations bear interest, mature and are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth therein.

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions set forth below.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the Issuer and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Obligations.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any change in law that may hereafter occur.

Based on the foregoing, it is our opinion that, under existing law:

1. The Obligations are valid and binding general obligations of the Issuer, and all the real and tangible personal property subject to assessment for unlimited municipal taxation within the corporate limits of the City of Rockville is subject to the levy of an ad valorem tax, without limitation of rate or amount, to pay the Obligations and the interest thereon.

2. Under existing law of the State of Maryland, the interest on the Obligations and profit realized from the sale or exchange of the Obligations is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes or any other taxes not levied directly on the Obligations or the interest thereon.

3. Under existing law, the interest on the Obligations is excludable from gross income for Federal income tax purposes, and the interest on the Obligations is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; provided, however, that such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations.

In rendering the opinion expressed above in this paragraph (3), we have assumed continuing compliance with the covenants and agreements set forth in the Tax Certificate and Compliance Agreement of even date herewith executed and delivered by the Issuer (the "Tax Agreement"), which covenants and agreements are designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the income tax regulations issued thereunder (the "Regulations") that must be satisfied subsequent to the issuance of the Obligations in order that the interest thereon be, or continue to be, excluded from gross income for federal tax purposes. In our opinion, the covenants and agreements in the Tax Agreement are sufficient to meet such requirements (to the extent applicable to the Obligations) of the Code and Regulations. However, we assume no responsibility for, and will not monitor, compliance with the covenants and agreements in the Tax Agreement. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Obligations from becoming includible in gross income for Federal income tax purposes, retroactive to the date of issuance of the Obligations.

Other than as set forth in the preceding paragraphs 2 and 3, we express no opinion regarding the federal or state income tax consequences arising with respect to the Obligations.

It is to be understood that the rights of the owners of the Obligations and the enforceability of the Obligations may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Respectfully submitted,

March 20, 2013

Mayor and Council of Rockville
Rockville, Maryland

Ladies and Gentlemen:

We have examined certified copies of the legal proceedings and other proofs submitted relative to the issuance and sale by Mayor and Council of Rockville, Maryland (the "Issuer") of \$6,030,000 General Obligation Refunding Bonds, Series 2013B, dated March 20, 2013 (the "Obligations"). The Obligations bear interest, mature and are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth therein.

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions set forth below.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the Issuer and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Obligations.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any change in law that may hereafter occur.

Based on the foregoing, it is our opinion that, under existing law:

1. The Obligations are valid and binding general obligations of the Issuer, and all the real and tangible personal property subject to assessment for unlimited municipal taxation within the corporate limits of the City of Rockville is subject to the levy of an ad valorem tax, without limitation of rate or amount, to pay the Obligations and the interest thereon.

2. Under existing law of the State of Maryland, the interest on the Obligations and profit realized from the sale or exchange of the Obligations is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes or any other taxes not levied directly on the Obligations or the interest thereon.

3. Under existing law, the interest on the Obligations is excludable from gross income for Federal income tax purposes, and the interest on the Obligations is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; provided, however, that such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations.

In rendering the opinion expressed above in this paragraph (3), we have assumed continuing compliance with the covenants and agreements set forth in the Tax Certificate and Compliance Agreement of even date herewith executed and delivered by the Issuer (the "Tax Agreement"), which covenants and agreements are designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the income tax regulations issued thereunder (the "Regulations") that must be satisfied subsequent to the issuance of the Obligations in order that the interest thereon be, or continue to be, excluded from gross income for federal tax purposes. In our opinion, the covenants and agreements in the Tax Agreement are sufficient to meet such requirements (to the extent applicable to the Obligations) of the Code and Regulations. However, we assume no responsibility for, and will not monitor, compliance with the covenants and agreements in the Tax Agreement. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Obligations from becoming includible in gross income for Federal income tax purposes, retroactive to the date of issuance of the Obligations.

Other than as set forth in the preceding paragraphs 2 and 3, we express no opinion regarding the federal or state income tax consequences arising with respect to the Obligations.

It is to be understood that the rights of the owners of the Obligations and the enforceability of the Obligations may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Respectfully submitted,

APPENDIX C

Form of the Continuing Disclosure Agreement

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated as of March 20, 2013, is executed and delivered by the Mayor and Council of Rockville, Maryland (the “Issuer”) in connection with the issuance and sale of the Issuer’s \$15,945,000 General Obligation Bonds, Series 2013A and \$6,030,000 General Obligation Refunding Bonds, Series 2013B (collectively, the “Obligations”). Capitalized terms used in this Agreement shall have the respective meanings specified above or in Article IV hereof.

ARTICLE I

The Undertaking

Section 1.1. Purpose. This Agreement is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) The Issuer shall provide Annual Financial Information with respect to each Fiscal Year of the Issuer, commencing with Fiscal Year ending June 30, 2013, by no later than 275 days after the end of the respective Fiscal Year, to EMMA.

(b) The Issuer shall provide, in a timely manner not in excess of ten business days after the occurrence of the event, notice of any failure of the Issuer to provide the Annual Financial Information by the date specified in subsection (a) above to EMMA.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof because not available, the Issuer shall provide Audited Financial Statements, when and if available, to EMMA.

Section 1.4. Notice Events. (a) If a Notice Event occurs, the Issuer shall provide, in a timely manner not in excess of ten business days after the occurrence of the event, notice of such Notice Event to EMMA.

(b) Any such notice of a defeasance of Obligations shall state whether the Obligations have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) Each Notice Event notice relating to the Obligations shall include the CUSIP numbers of the Obligations to which such Notice Event notice relates or, if the Notice Event notice relates to all bond issues of the Issuer including the Obligations, such Notice Event notice need only include the CUSIP number of the Issuer.

Section 1.5. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Issuer under such laws.

Section 1.6. Additional Information. Nothing in this Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Notice Event hereunder, in addition to that which is required by this Agreement. If the Issuer chooses to include any information in any Annual Financial Information or Notice Event notice in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Notice Event hereunder.

Section 1.7. Previous Non-Compliance. The Issuer represents that, except as disclosed in the Official Statement, in the previous five years it has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information (but not Notice Event notices) by specific reference to documents (i) available to the public on the MSRB Internet Web site or (ii) filed with the SEC.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. Notice Events. Each notice of a Notice Event hereunder shall be captioned "Notice Event" and shall prominently state the title, date and CUSIP numbers of the Obligations.

Section 2.4 Filing with Certain Dissemination Agents or Conduits. The Issuer may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the Issuer under this Agreement, and revoke or modify any such designation.

Section 2.5. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 2.6. Fiscal Year. (a) The Issuer's current Fiscal Year begins July 1 and ends on June 30, and the Issuer shall promptly notify MSRB of each change in its Fiscal Year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any Fiscal Year longer than 12 calendar months.

ARTICLE III

Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Obligations.

(b) The Issuer's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Obligations.

(c) This Agreement, or any provision hereof, shall be null and void in the event that the Issuer (1) receives an opinion of Counsel to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Obligations, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to MSRB.

Section 3.2. Amendment. (a) This Agreement may be amended by the Issuer, without the consent of the holders of the Obligations if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments to or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have received an opinion of Counsel to the same effect as set forth in clause (2) above, (4) the Issuer shall have received an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer, to the effect that the amendment does not materially impair the interests of the holders of the Obligations, and (5) the Issuer shall have delivered copies of such opinion(s) and amendment to MSRB.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Obligations, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Issuer shall have received an opinion of Counsel to the effect that performance by the Issuer under this Agreement as so amended will not result in a violation of the Rule and (3) the Issuer shall have delivered copies of such opinion and amendment to MSRB.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the Issuer in preparing its financial statements, the Annual Financial Information for the Fiscal Year in which the change is made shall present a comparison between

the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3 Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Obligations, except that beneficial owners of Obligations shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and subsection (b) of this Section.

(b) The obligations of the Issuer to comply with the provisions of this Agreement shall be enforceable by any holder of outstanding Obligations. The holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Obligations pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Obligations for purposes of this subsection (b).

(c) Any failure by the Issuer to perform in accordance with this Agreement shall not constitute a default with respect to the Obligations.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State of Maryland, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State of Maryland; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively:

A. (i) Audited Financial Statements, if available, or Unaudited Financial Statements for the immediately preceding Fiscal Year; and

(ii) the Issuer's Comprehensive Annual Financial Report, if any is prepared, for the immediately preceding Fiscal Year, and if not prepared, such annual financial information as the Issuer is advised by disclosure counsel or bond counsel would satisfy the definition of "annual financial information" in the Rule; and

B. the following information provided in the Official Statement prepared and

delivered by the City with respect to the Obligations: the Tables listed immediately below utilizing the same accounting standards as were used in preparing such information for the Official Statement and updated as of a date no earlier than the last day of the immediately preceding fiscal year.

- Historical Summary of Bonded Indebtedness (Table 15)
- Five Year Debt Statistics (Table 16)
- General Obligation Debt Outstanding by Issue (Table 17)
- General Obligation Debt Schedule of Annual Maturities (Table 18)
- General Obligation Debt Issuer Net Requirement Analysis (Table 19)
- Operating Lease Annual Maturity Schedule (Table 20)
- Annual Note Obligations (Table 21)
- Overlapping Debt (Table 23)
- Adopted Fiscal Year 2012 and 2013 General Fund Budgets (Table 24)
- General Fund Statement of Revenues and Expenditures and Changes in the General Fund (Table 25)
- Assessed Value of All Taxable Property by Class (Table 26)
- Property Tax Levies and Collections (Table 27)
- Property Tax Rates Overlapping Governments (Table 28)
- Principal Taxpayers (Table 29)

C. the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement.

Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) “Audited Financial Statements” means the annual basic financial statements, if any, of the Issuer, audited by such auditor as selected by the Issuer. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Section 3.2(a) hereof, the Issuer may from time to time, if required by federal or Maryland legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific federal or Maryland law or regulation describing such accounting principles, or other description thereof.

(3) “Counsel” means nationally recognized bond counsel or counsel expert in federal securities laws.

(4) “EMMA” means the Electronic Municipal Market Access System described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule.

(5) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(6) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(7) “Notice Event” means any of the following events with respect to the Obligations, whether relating to the Issuer or otherwise:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations;
- (vii) modifications to rights of Obligations holders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the Issuer;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(8) “Official Statement” means the Official Statement dated February 25, 2013, of the Issuer relating to the Obligations.

(9) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(10) “SEC” means the United States Securities and Exchange Commission.

(11) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

(12) “Underwriters” means the original underwriter(s) of any of the Obligations required to comply with the Rule in connection with the offering or sale of the Obligations.

MAYOR AND COUNCIL OF ROCKVILLE

By:

Gavin Cohen
Chief Financial Officer